



COMMUNITY NON-QM GUIDELINES

EFFECTIVE 05.05.2026

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I INTRODUCTION

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

I.1 LOAN PURCHASE PHILOSOPHY

CW Lending evaluates many aspects of the loan but primarily relies on evaluation of the borrower's ability to repay the loan to predict loan performance. Additional characteristics of the loan are also examined including credit history, asset position, and the property being used for collateral.

CW Lending's Guidelines establish the criteria under which a loan will be eligible for purchase by CW Lending. CW Lending does not require sellers to make any loan simply because it is eligible for purchase by CW Lending, nor does CW Lending prohibit sellers from originating a loan that is ineligible for purchase by CW Lending. Sellers should rely on their own underwriting guidelines to determine whether to extend credit to any particular applicant.

CW Lending has a no-tolerance policy as it relates to fraud. Sellers should follow their own established fraud and identity procedures on every loan in an effort to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-C, etc.) Loans containing fraudulent documentation or information will immediately be declined and forwarded for further review. If there is any determination of seller involvement, the seller will be made inactive and the appropriate agencies notified. CW Lending will also pursue borrower fraud to the fullest extent of the law.

I.2 FAIR LENDING STATEMENT

CW Lending operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. CW Lending fully supports the letter and spirit of both of these laws and will not condone discrimination in any mortgage transaction.

I.3 RESPONSIBLE LENDING STATEMENT

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Loans purchased by CW Lending should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Lenders must verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to be in compliance:

- Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan
- Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
- Monthly mortgage payment for this loan. You calculate this using the introductory or fully indexed rate, whichever is higher, and monthly, fully amortizing payments that are substantially equal
- Monthly payment on any simultaneous loans secured by the same property
- Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent
- Debts, alimony, and child support obligations
- Monthly debt-to-income ratio or residual income, that you calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
- Credit history

CW Lending will not purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though CW Lending may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule, CW Lending will only purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

2 GENERAL PROGRAM INFORMATION

2.1 PROGRAMS

CW Lending offers several loan programs through the Community Non-QM Product Suite. Refer to the CW Lending Matrices for complete program details:

- Expanded Prime Program
- Non-Prime Program

2.2 DOCUMENTATION

Documentation types include:

- Full Documentation: 1- or 2-years W-2s or tax returns
- Alternative Income Documentation: Personal Bank Statements, Business Bank Statements, 1099s, or 1-Year Profit and Loss Statement with 2 months Bank Statement

2.3 PRODUCTS

See applicable CW Lending matrix

2.4 LOAN AMOUNTS AND LOAN-TO-VALUES

See applicable CW Lending matrix

2.5 STATE RESTRICTIONS

See applicable CW Lending matrix

2.6 LOAN AGE

The period between the note date and the purchaser's funding date cannot exceed 60 days.

2.7 PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

Prepayment penalties may be required on investment property transactions where permitted by applicable law. Buydown options are available to reduce or remove prepayment penalties. See the appropriate CW Lending Rate Sheet for details. Prepayment penalties on primary residence and second home transactions are prohibited.

Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, CW Lending does not originate loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

2.8 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted by the seller in writing to CW Lending on the CW Lending Exception Request Form along with any supporting documentation.

CW Lending's decision to allow or deny any exception request relates only to whether CW Lending will purchase a loan. The decision does not bind a seller with respect to the underlying decision to extend credit.

CW Lending reserves the right to allow guideline variances when accompanied by a compensating factor(s).

2.9 ADDITIONAL REQUIREMENTS

CW Lending loan products do not require Mortgage Guarantee Insurance, Private Mortgage Insurance, or other like coverages.

As they relate to the occupancy of the mortgaged property or otherwise, receipt of certificates of occupancy, fire underwriting certificates, inspections, or licenses are not required for any CW Lending loan products.

3 TRANSACTIONS

3.1 OCCUPANCY

3.1.1 PRIMARY RESIDENCE

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence.

To qualify as a primary residence, the transaction must meet each of the following criteria:

- Property is located in the same general area as the borrower's employment
- Borrower intends to occupy the subject property for the majority of the year
- Property possesses physical characteristics that accommodate the borrower's family

3.1.2 SECOND HOME

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1-unit dwellings.

Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence
- Must be occupied by the borrower for some portion of the year
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm

3.1.3 INVESTMENT PROPERTY

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy. A signed Business Purpose & Occupancy Affidavit is required on all investment property transactions.

3.2 PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

3.3 GENERAL REFINANCE REQUIREMENTS

Rate/term refinance and cash-out refinance are allowed.

All investment property refinances require an appraisal review product. See *11.7.5 Appraisal Review Process* for detailed requirements.

3.3.1 DETERMINING LOAN-TO-VALUE

3.3.1.1 RATE/TERM REFINANCE

For rate/term refinance transactions, the current appraised value may be used to determine loan-to-value.

3.3.1.2 CASH-OUT REFINANCE

If the property was acquired < 6 months from note date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

If the subject property was acquired ≥ 6 but < 12 months from note date, the appraised value may be used to determine loan-to-value when the following applies:

- Clear Capital CDA, Field Review, or FNMA Collateral Underwriter/ FHLMC Loan Collateral Advisor Review w/score of 2.5 or less (copy of the Submission Summary Report required)
- Maximum 75% LTV

If the subject property was acquired ≥ 12 months from note date, the appraised value may be used to determine loan-to-value.

3.3.2 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Sellers will complete the CW Lending Benefit for Borrower Worksheet to ensure compliance with the CW Lending benefit to borrower policy. Files must contain documentation supporting the acceptable benefit.

Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage.

A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Seller must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Seller must take special care to ensure a net tangible benefit to the borrower

3.3.3 PROPERTIES LISTED FOR SALE

To be eligible for either a rate/term or a cash-out refinance, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

For cash-out transactions, if the subject property was listed for sale in the 6 months prior to application date, a 5% LTV reduction from the maximum available for the specific transaction is required.

The lesser of the most recent list price or the current appraised value should be used to determine loan-to-value for both rate/term and cash-out transactions.

3.4 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
 - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
 - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than \$2,000 in total draws over the past 12 months

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or \$2,000.

3.5 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [3.4 Rate/Term Refinance](#)
- The amount of any non-mortgage related debt paid off through closing
- Additional cash in hand reflected on the settlement statement

A signed Business Purpose & Occupancy Affidavit is required on all investment property cash-out transactions. Net proceeds may only be utilized for business purposes as prescribed on the affidavit.

3.5.1 DELAYED FINANCING

Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction.
- Settlement statement from purchase confirms no mortgage financing used to acquire subject.
- Source of funds used for purchase documented (gift funds may not be included).
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.
- **The lesser of the current appraisal value or previous purchase price plus documented improvements (if any) used to determine LTV.**
- Standard cash-out limits do not apply to delayed financing transactions.

3.5.2 CASH-OUT LIMITS

See applicable CW Lending matrix

3.6 TEXAS HOME EQUITY LOANS

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions.

All Texas Home Equity loans must comply with the more restrictive of the CW Lending Guidelines or [3.6 Texas Home Equity Loans](#).

3.6.1 SELLER CERTIFICATION

The seller certifies that with respect to all of the Texas Section 50(a)(6) mortgages delivered to CW Lending:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to CW Lending in connection with each Texas Section 50(a)(6) mortgage.

3.6.2 GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Full Documentation and Alternative Income Documentation allowed
- Maximum LTV/CLTV 80/80%
- 1-unit properties only
- Fully amortized products only

3.6.3 LOAN PARAMETERS

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens
- Loans using proceeds to pay property tax liens on the property securing the new loan
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property
- Loans with any cash back to the borrower

The following are NOT considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement)
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee)
- Loans that include the payment of HOA dues, if title company requires them to be paid

3.6.4 RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off
- The 50(a)(6) loan may not be used to acquire the property or to finance construction

3.6.5 OCCUPANCY

Texas Home Equity loans are allowed on primary residences only under the Expanded Prime, Non-Prime, and Community Equity Edge Programs. Texas Home Equity loans are not allowed under the Expanded Prime Super Jumbo Program. All borrowers on the loan must be in title and occupy the subject property as their primary residence.

Cash-out transactions in Texas are allowed on 2nd homes. Primary occupancy must be clearly established, and documentation must be obtained as evidence the 2nd home does not have a Texas homestead exception.

Cash-out transactions on investment properties in Texas are not subject to 50(a)(6) requirements and are permitted under all CW Lending programs. Evidence must be obtained to show a Texas homestead exemption has been granted on the borrower's primary residence. Cash-out transactions on investment properties in Texas follow standard CW Lending guidelines.

3.6.6 BORROWERS

The following borrowers are permitted on Texas Home Equity loans. All borrowers must maintain primary occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens

The following borrowers are not allowed:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- Corporations, partnerships, or LLCs
- Trusts

3.6.7 NON-BORROWING SPOUSE

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:

- Notice Concerning Extensions of Credit
- Security Instrument (including any Riders)
- Federal Truth-in-Lending (TIL) Disclosure Statement
- Right of Rescission Notice
- Discount Point Disclosure
- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- All owners must sign the application and the Notice Concerning Extensions of Credit (English or Spanish). The signing of both documents starts the 12-day 'cooling off' period.
- Notice of Presentment of CD One Day Before Closing
- Texas Home Equity Affidavit and Agreement
- Owner's Affidavit of Compliance
- Receipt of Copies of Documents
- Certificate of Non-Cancellation of Loan

An owner-in-title (whether a spouse or individual) must sign the application and Notice Concerning Extensions of Credit (English or Spanish) at the time of application, along with all appropriate documentation.

3.6.8 REFINANCING AN EXISTING HOME EQUITY LOAN

Effective for loans made on or after 1/1/18, existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed;
- the additional loan amount only covers the actual costs of the refinancing, and does not provide the consumer with additional funds;
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:

NOTICE CONCERNING REFINANCING A HOME EQUITY LOAN

YOUR EXISTING LOAN THAT YOU DESIRE TO REFINANCE IS A HOME EQUITY LOAN. YOU MAY HAVE THE OPTION TO REFINANCE YOUR HOME EQUITY LOAN AS EITHER A HOME EQUITY LOAN OR AS A NON-HOME EQUITY LOAN, IF OFFERED BY YOUR LENDER.

HOME EQUITY LOANS HAVE IMPORTANT CONSUMER PROTECTIONS. A LENDER MAY ONLY FORECLOSE A HOME EQUITY LOAN BASED ON A COURT ORDER. A HOME EQUITY LOAN MUST BE WITHOUT RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE.

IF YOU HAVE APPLIED TO REFINANCE YOUR EXISTING HOME EQUITY LOAN AS A NON-HOME EQUITY LOAN, YOU WILL LOSE CERTAIN CONSUMER PROTECTIONS. A NON-HOME EQUITY REFINANCED LOAN:

- (1) WILL PERMIT THE LENDER TO FORECLOSE WITHOUT A COURT ORDER;
- (2) WILL BE WITH RECOURSE FOR PERSONAL LIABILITY AGAINST YOU AND YOUR SPOUSE; AND
- (3) MAY ALSO CONTAIN OTHER TERMS OR CONDITIONS THAT MAY NOT BE PERMITTED IN A TRADITIONAL HOME EQUITY LOAN.

BEFORE YOU REFINANCE YOUR EXISTING HOME EQUITY LOAN TO MAKE IT A NON-HOME EQUITY LOAN, YOU SHOULD MAKE SURE YOU UNDERSTAND THAT YOU ARE WAIVING IMPORTANT PROTECTIONS THAT HOME EQUITY LOANS PROVIDE UNDER THE LAW AND SHOULD CONSIDER CONSULTING WITH AN ATTORNEY OF YOUR CHOOSING REGARDING THESE PROTECTIONS.

YOU MAY WISH TO ASK YOUR LENDER TO REFINANCE YOUR LOAN AS A HOME EQUITY LOAN. HOWEVER, A HOME EQUITY LOAN MAY HAVE A HIGHER INTEREST RATE AND CLOSING COSTS THAN A NON-HOME EQUITY LOAN.

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

Note: All the above requirements must be met in order for the home equity loan to be refinanced as a non-home equity loan.

3.6.9 12-DAY COOLING OFF PERIOD

The Notice Concerning Extensions of Credit must be provided to the borrower in English and an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Extensions of Credit.
- E-consent signatures are acceptable
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non-borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
 - The date the initial loan application is signed, or
 - The date that the Notice Concerning Extensions of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

3.6.10 PAYOFF OF DEBT

The seller may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- Seller may not require any other seller-owned debt be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other creditors is required in order to qualify the borrower, then those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.
- Debts that are elected to be paid off by the borrower but are not required to be paid off in order to qualify the borrower, may be disbursed directly to the borrower.

3.6.11 SECONDARY FINANCING

New subordinate financing is allowed under the CW Lending Community Equity Edge Program. See [14 Community Equity Edge](#) for program-specific requirements.

See [10.3.16 Secondary/Subordinate Financing](#) for requirements for existing financing. Existing liens are financing is subject to the following:

- Second lien must be re-subordinated.
- Maximum 80% CLTV.
- Second lien may not be a HELOC or a reverse mortgage.

3.6.12 PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

Properties are subject to all other property and appraisal requirements detailed in the CW Lending Guidelines.

3.6.13 URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, the lot size must be typical and common with highest and best use as residential. In no case may the lot size exceed 20 acres.
PROPERTY LOCATION AND SERVICES	<p>Property must be located:</p> <ul style="list-style-type: none"> - Within municipal boundaries, or - Its extraterritorial jurisdiction, or - A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality: <ul style="list-style-type: none"> • Electric • Natural gas • Sewer • Storm sewer • Water 	<p>The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas:</p> <ul style="list-style-type: none"> - It is not served by police protection or paid or volunteer fire protection provided by the municipality or under contract to a municipality, and - The municipality provides directly or under contract less than three (3) of the following services: <ul style="list-style-type: none"> • Electric • Natural gas • Sewer • Storm sewer • Water

Properties determined to be ‘Urban’ cannot exceed 10 acres. Property determined to be ‘Rural’ may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

See program-specific guidelines and matrices for any additional property restrictions.

3.6.14 CLOSING REQUIREMENTS

3.6.14.1 ATTORNEY REVIEW

All documents must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by CW Lending):

- Sandler Law Firm
- Polunsky Beitel Green, LLP
- Brown, Fowler, Alsup
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettters, LLC
- Pierson Patterson LLP
- Dorsett Johnson, LLP

3.6.14.2 CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The seller is responsible for ensuring all timing requirements under Regulation Z and state law are complied with.

Borrower must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

3.6.14.3 POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

- Lender-paid closing costs
- Per diem interest
- Bona fide discount points used to reduce the interest rate
- Escrow/impound funds
- Appraisal fee paid to third-party appraiser
- Surveys (completed by state registered or licensed surveyors)
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

3.6.14.4 POWER OF ATTORNEY

Power of Attorney is not allowed.

3.6.14.5 SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size
- Evidence homestead property and any adjacent land are separate
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress is available
- Properties must be served by municipal utilities, fire, and police protection
- Homestead must be separate parcel within permissible acreage

3.6.14.6 TITLE

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.I endorsements is required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.I endorsement without exception or deletion.

Title may not include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance”; or
- defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company’s office or attorney’s office. No mobile notaries are permitted.

3.6.15 TEXAS HOME EQUITY DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extensions of Credit (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and the seller must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)
- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender's Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller's Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings, if borrower owns more than one
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)
- Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable

3.7 NEW YORK CEMA LOANS

Not permitted at this time.

3.8 FLIP TRANSACTIONS

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- No assignments of the contract to another buyer
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
- An additional appraisal product is required. See [11.7.5 Appraisal Review Process](#)

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days
- Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

3.9 NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer

Non-arm's length transactions are subject to all of the following requirements:

- Primary residence only
- Relationship must be fully disclosed
- An appraisal review product is required
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase
- Borrower to provide a copy of the canceled earnest money check paid to the property seller
- Seller must be satisfied that the transaction makes sense and that the borrower will occupy the property
- All liens on title to be paid in full and reflected on the settlement statement
- Lesser of sales price or current appraised value to be used to calculate the LTV
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property

The following additional requirements apply only to family sales:

- Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months (if applicable)
- Verification that the borrower has not been in title to the property in the past 24 months
- Gift of equity is permitted.

3.10 INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through settlement
- Subject property has cleared probate and property is vested in the borrower's name
- Current appraised value is used to determine loan-to-value

3.11 LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply:

- Primary residence only
- Copy of fully executed land contract and payoff(s) to be obtained
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history
- Liens on title to be paid in full and reflected on settlement statement at closing
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-out and non-arm's length transactions not eligible

3.12 LEASE WITH PURCHASE OPTION

Lease with purchase option transactions are allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See [10.3.13 Rent Credit for Lease with Purchase Option](#) for detailed requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments

3.13 PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower 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.

When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction-to-permanent transaction may be closed as a purchase, rate/term refinance or cash-out refinance. See [11.8.19 New Construction](#).

- For lots owned \geq 12 months from application date for the subject transaction, LTV is based on the current appraised value.
- For lots owned $<$ 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

3.14 EXPANDED PRIME SUPER JUMBO PROGRAM

Not available at this time.

4. BORROWERS

A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note. If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are considered to be borrowers. Business Entity borrowers are allowed under the Business Purpose Lending Program only.

4.1 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Social security numbers can be validated with a copy of the social security card, an executed SSA-89 form, or through fraud report verification. Sellers are to follow the published CIP procedures for each borrower to ensure the true identity of all borrowers has been documented.

4.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the seller.

If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller's underwriting staff or operations management personnel.

In addition to the fraud and background check requirements, the seller must provide evidence via an unsuccessful return if background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

4.3 U.S. CITIZENS

U.S. citizens are eligible for financing.

4.4 PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

4.5 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for all products and programs available on the applicable CW Lending matrix.

4.5.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- E-1, E-2, E-3
- G-1 through G-5
- H-1B & H-1C, H-2 through H-4
- L-1B, L-2
- NATO 1 through 6
- O-1
- R-1
- TN-1 & 2 (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>.

Citizens of Venezuela are ineligible for CW Lending programs.

4.5.3 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower using a valid Social Security number. The primary wage earner must qualify using Standard Tradelines as outlined in [5.4 Tradeline Requirements](#). A 12-month housing history is also required. See [5 Credit Analysis](#) for complete credit requirements.

4.5.3 INCOME/EMPLOYMENT REQUIREMENTS

Standard guidelines apply for verifying income and employment of Non-Permanent Resident Aliens.

4.5.4 ASSETS

Standard guidelines apply for down payment, closing costs, and reserves. See also [10.3.7 Foreign Assets](#). Non-Permanent Resident Alien borrowers must have 6 months of PITIA reserves for the subject property.

4.6 ITIN Borrowers

Not available at this time.

4.7 EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved on each transaction must be screened through exclusionary lists used by the seller. The seller should apply its exclusionary list policy to any loans originated under these guidelines.

Parties to the transaction must also be cleared through OFAC's SDN List (borrowers, property sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website at <https://sanctionssearch.ofac.treas.gov/>.

Borrowers from OFAC sanctioned countries are ineligible. A list of sanctioned countries is available at <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information>.

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at <https://www.state.gov/resources-for-foreign-embassies/deans-of-the-diplomatic-corps/>.

4.8 CO-BORROWERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note. All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards. All co-borrowers must occupy and take title to the subject property. A related Business Entity or Inter Vivos Revocable Trust may have an ownership interest in title to the subject property as enumerated in Section 4 and Section 14. Co-borrowers may not be an interested party to the transaction. Possible examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is generally permitted.)

4.9 NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are allowed. Pricing and eligibility are based upon the credit score of the occupying borrower. The following requirements must be met:

- Primary occupancy only
- Purchase and rate/term only (non-occupant must be on the current mortgage for a rate/term refinance)
- Non-occupant co-borrower must be an immediate relative
- Max 80% LTV
- Max 60% DTI (occupying borrower only)
- Max 43% DTI (total for all borrowers combined)
- Max loan amount \$1,000,000

4.10 FIRST-TIME HOME BUYERS

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 5-year period. First-Time Home Buyers are allowed on primary residence and second home transactions only and must have 6 months of PITIA reserves for the subject property.

4.11 EMPLOYEES OF SELLER

Loans to employees of the seller are allowed. Transactions must meet the following requirements:

- Primary residence and second homes only
- Loan must adhere to non-arm's length transaction guidelines
- Officers of the seller are permitted on an exception basis only

4.12 LIMITED POWER OF ATTORNEY

A Limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction
- Recorded with the mortgage/deed of trust
- Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial I003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney

4.13 VESTING AND OWNERSHIP

4.13.1 FEE SIMPLE OWNERSHIP

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity (investment properties only)
 - LLC - Limited Liability Company (members of the LLC may also not be a trust)
 - Limited and General Partnerships
 - Corporations
 - S Corporations

4.13.2 INTER VIVOS REVOCABLE TRUST VESTING

Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establishing the trust. The trust must become effective during the lifetime of the person establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage.

A copy of the trust is required, or a signed attorney's opinion may be obtained in lieu of the trust documents. The opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed
- Settler(s) of the trust

- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

4.13.3 EASEHOLD ESTATE

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. See also [11.8.14 Leasehold Appraisal Requirements](#).

The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

4.13.3.1 LEASE REQUIREMENTS

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The original term of the lease is not less than 15 years.
- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.

- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with
 - the right to receive a minimum of 30 days' notice of any default by the borrower, and
 - the option to either cure the default or take over the borrower's rights under the lease.

4.13.3.2 ADDITIONAL ELIGIBILITY REQUIREMENTS

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

4.13.3.3 OPTION TO PURCHASE FEE INTEREST

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

ESTABLISHING LAND PURCHASE PRICE

STATUS OF PROPERTY IMPROVEMENTS	PURCHASE PRICE OF LAND
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	<p>The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed.</p> <p>The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year.</p> <p>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p>
Will be constructed after the lease is executed	<p>The purchase price of the land should be the lower of the following:</p> <ul style="list-style-type: none"> • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. <p>For example, assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value is \$225,000, \$50,000 for land and \$175,000 for improvements, the purchase price would be \$50,000 (the current appraised value of the land, because it is less than 25% of \$225,000).</p> <p><u>Note:</u> If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p>

4.14 MULTIPLE FINANCED PROPERTIES AND CW LENDING EXPOSURE

There is no limit on the number of other properties borrowers may currently have financed. When the transaction is for a 2nd home or investment property, 2 months of additional reserves for each financed property is required.

CW Lending exposure may not exceed \$10M aggregate with a maximum of 10 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

4.15 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- ITIN Borrowers
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Nonprofit organizations
- Trusts or Land Trusts (trusts may qualify for ownership vesting only)
- Borrowers less than 18 years old

5. CREDIT ANALYSIS

5.1 EQUAL CREDIT OPPORTUNITY ACT, FAIR HOUSING ACT & STATE FAIR LENDING LAWS

The Federal Equal Credit Opportunity Act prohibits lenders from discriminating against credit borrowers on the basis of race, color, religion, national or ethnic origin, sex, marital or familial status, age (provided the borrower has the capacity to enter into a binding contract), disability, because all or part of the borrower's income is derived from a public assistance program or because the borrower has, in good faith, exercised any rights under the Consumer Credit Protection Act. State laws may also prohibit discrimination on certain additional basis such as sexual orientation.

Similarly, the Fair Housing Act prohibits lenders from discriminating against mortgage borrowers on the basis of race, color, religion, sex, familial status, national origin, or disability.

CW Lending expects lenders originating loans for sale to CW Lending to adhere to the letter and spirit of federal and state fair lending laws.

5.2 CREDIT REPORT

A credit report is required for every borrower. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

5.2.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION

All credit documentation, including the credit report, may not be > 120 days old at the time of closing.

5.2.2 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert

- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

5.2.3 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

5.2.4 INQUIRIES

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

5.2.5 UPDATED PAYMENT HISTORIES

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when the majority of credit is from a non-institutional lender.

5.2.6 GAP CREDIT REPORT

A gap credit report from at least one of three major national credit repositories (Transunion, Equifax, or Experian) is required within 10 business days of closing. In cases where a gap report is not received prior to closing, the report may be obtained within 30 days of closing.

Evidence of an active Debt Monitoring Service is acceptable in lieu of a gap credit report. The Debt Monitoring Service must be in effect within 10 days of closing. If written evidence cannot be provided, a processor cert or lender attestation stating no new debts are present is allowed.

5.3 CREDIT SCORE REQUIREMENTS

The primary wage earner score is used as the Representative Credit Score for each loan. The primary wage earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. Additional borrowers on the loan must have at least one valid score of 620 or greater.

To determine the Representative Credit Score for the primary wage earner, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

When qualifying income amount is equal for all borrowers on the loan, the highest Representative Credit Score of all borrowers will be used.

5.4 TRADELINE REQUIREMENTS

MINIMUM TRADELINES			
	OCCUPANCY	TRADELINE HISTORY	MINIMUM STANDARDS
STANDARD TRADELINES	Primary and Second Homes	3 tradelines reporting for 12+ months with activity in last 12 months or 2 tradelines reporting for 24+ months with activity in last 12 months or ***1 tradeline for 36+ months with activity in the last 12 months	**0x60 for most recent 12 months
	Investment	†Primary wage earner credit report reflects scores from all 3 bureaus and qualifying score is 700+	
*LIMITED TRADELINES	Primary and Second Homes	Does not meet minimum tradeline requirements	N/A
<p><i>*Limited Tradelines allowed only on the Non-Prime Program.</i></p> <p><i>**Applies only to tradelines being used to meet minimum number of trades.</i></p> <p><i>***Tradeline must be a mortgage account or installment account.</i></p> <p><i>†Expanded Prime Super Jumbo program not eligible.</i></p>			

To qualify as a valid tradeline, the following requirements apply:

- The credit line must be reflected on the borrower’s credit report
- The account must have activity in the past 12 months and may be open or closed
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months
- An acceptable 12- or 24-month housing history not reporting on credit may also be used as a tradeline

Only the primary wage earner must meet the minimum tradeline requirements listed above.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

5.4.1 STANDARD TRADELINES

Borrowers qualifying with Standard Tradelines are eligible for all occupancy types and programs.

5.4.2 LIMITED TRADELINES

The following requirements apply when qualifying with Limited Tradelines:

- Non-Prime Program only
- Primary residence and second homes
- 10% minimum borrower contribution
- Minimum 6 months reserves after closing
- ITIN borrowers are not allowed

5.4.3 INSUFFICIENT TRADELINES/NON-TRADITIONAL CREDIT

Insufficient tradelines and non-traditional credit is not allowed. Each borrower must have a valid and usable score as defined in [5.3 Credit Score Requirements](#).

5.5 MORTGAGE AND RENTAL PAYMENT VERIFICATION

See the applicable CW Lending matrix for maximum allowable mortgage and rental payment lates.

The following requirements apply for mortgage and rental verifications:

- For primary residence transactions, only the mortgage/rental history on the borrower's primary residence is required.
- For second home/investment property transactions, the mortgage/rental history on both the borrower's primary residence and the subject property are required (if applicable, i.e., refinance).
- Mortgage/rental history for the primary and/or subject property must be current at time of application and closing.
- If rental income is being used to qualify, the mortgage history(s) for the associated rental properties must be obtained.
- Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into the overall housing history rating and must be brought current.
- PITIA for all REO must be documented for programs requiring a DTI calculation.
- Mortgage histories for other REOs not reporting on credit are not required.

Mortgage and rental payments that are required to be verified but not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.

If the borrower is making payments to an individual or interested party, 10-12 of the last 12 months or the most recent 6 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

5.5.1 NO HOUSING HISTORY OR LESS THAN 12 MONTHS VERIFIED

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Primary residence and second homes only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- Payment Shock is not considered
- VOR/VOM must be obtained for all months available reflecting paid as agreed
- Properties owned free and clear are considered 0x30 for grading purposes.

5.5.2 MORTGAGE MODIFICATION

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines under [5.14 Housing Events](#):

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

5.6 ROLLING LATE PAYMENTS

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

5.7 PAST DUE ACCOUNTS

Past due consumer debts can be no more than 30 days past due at time of closing.

5.8 DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse.

See also [6.6 Contingent Liabilities](#).

5.9 LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

5.10 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in 5.11 Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

5.11 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
- Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full under the Expanded Prime Program.

Under all other programs, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI ≤ 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

5.12 JUDGMENTS AND TAX LIENS

All judgments or liens affecting title must be paid as title must insure our lien position without exception. Court-ordered judgments may remain open when one of the following options is met:

- The amount is the lessor of \$5,000 per occurrence or 2% of the loan amount; or
- Judgments or **tax** liens have passed beyond the statute of limitations for that state (supporting documentation required); or
- The borrower is currently in a repayment agreement with the creditor. If the borrower is currently in a repayment plan, the following requirements apply:
 - A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
 - The maximum payment required under the plan is included in the debt-to-income ratio.

Outstanding state and federal tax liens or delinquent obligations may remain open on purchase transactions only. All of the following requirements must be met:

- A copy of the repayment agreement is obtained; and
- A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
- The maximum payment required under the plan is included in the debt-to-income ratio; and
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.

5.13 BANKRUPTCY

5.13.1 EXPANDED PRIME PROGRAM

All bankruptcies must be discharged or dismissed for a minimum of 48 months from closing date.

5.13.2 NON-PRIME PROGRAM

All bankruptcies must be discharged or dismissed for a minimum of 0 to 24 months from closing date. See the CW Lending Non-Prime Matrix for seasoning requirements.

5.14 HOUSING EVENTS

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed. See also [5.5.2 Mortgage Modification](#).

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

5.14.1 EXPANDED PRIME PROGRAM

Housing Events must be seasoned for a minimum of 48 months from closing date.

5.14.2 NON-PRIME PROGRAM

All Housing Events must be seasoned for a minimum of 0 to 24 months from closing date. See the CW Lending Non-Prime Matrix for seasoning requirements.

6. LIABILITIES

6.1 INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

6.2 REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the debt-to-income ratio calculation.

Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. See [7.3 Asset Documentation](#) for sourcing and seasoning requirements.

6.3 AUTHORIZED USER ACCOUNTS

Authorized user account should not be considered in the borrower's debt-to-income ratio.

6.4 BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 3 months canceled checks drawn against the business account; or
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

6.5 CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.

If 10 or fewer payments remain, see [6.1 Installment Debt](#) to determine if the obligation may be excluded from the DTI calculation.

6.6 CONTINGENT LIABILITIES

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner, e.g., divorce: file must include the court order and evidence of transfer of ownership
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

6.7 DEBTS PAID BY OTHERS

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.

When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- the party making the payments is obligated on the mortgage debt,
- there are no delinquencies in the most recent 12 months, and
- the borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

6.8 HOUSING PAYMENTS

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments on mortgages secured by the subject property

6.9 LEASE OBLIGATIONS

Lease obligations must be included in the debt-to-income ratio calculation, regardless of time remaining on the lease.

6.10 MATERIAL RECURRING NON-DEBT OBLIGATIONS

Sellers are not permitted to make inquiries or verifications prohibited by Regulation B.

A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that are expected to continue for greater than one year.

If the borrower informs the seller of a recurring non-debt obligation, the loan file must be noted. If the seller believes it could be material to the borrower's ability to repay the loan, escalation is required.

Documentation of material recurring non-debt obligations should be done consistent with seller's ability to repay policies and in a form acceptable to CW Lending.

6.11 OPEN 30-DAY CHARGE ACCOUNTS

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

6.12 RETIREMENT/SAVINGS PLAN LOANS

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

6.13 STUDENT LOANS

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation (the most recent student loan statement) may be used to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment.
- For deferred loans or loans in forbearance, the following must be calculated:
 - a payment equal to .5% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
 - fully amortizing payment using the documented loan repayment terms.

6.14 TIMESHARES

For credit review purposes, timeshare obligations will be considered installment loans.

6.15 UNDISCLOSED DEBTS

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient.

If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

7. DOCUMENTATION

7.1 AGE OF LOAN DOCUMENTATION

Unless otherwise noted, all loan documentation must be dated within 120 days of closing.

7.2 EMPLOYMENT/INCOME DOCUMENTATION

Documentation of income is allowed using Full Documentation or Alternative Income Documentation.

7.2.1 IRS FORM 4506-C

IRS Form 4506-C must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.) and be executed by seller prior to closing for self-employed borrowers. 4506-C forms and transcripts are not required for business tax returns or loans utilizing Bank Statement Documentation for income.

Documentation received from executing the 4506-C must be reviewed and compared to the qualifying income to confirm consistency. Results from processing the 4506-C should generally be equal to or greater than the income used to qualify the loan. Any inconsistencies between the 4506-C results and qualifying income should be addressed by the seller.

7.2.2 PAY STUBS AND W-2S

Pay stubs and W-2s must be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.

If pay stubs reflects garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.

W-2s should reflect a nine-digit Employer ID Number (EIN). Also, Social Security and Medicare withholding should be calculated at the appropriate rates on the W-2s and pay stubs.

Note: Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

7.2.3 FEDERAL INCOME TAX RETURNS

For some types of income, federal income tax returns (personal and/or business) are required. See [8.7.26 Self-Employed Income](#) for detailed requirements.

7.2.4 WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage earners or salaried borrowers may be obtained via direct written verification from the borrower's employer (FNMA Form 1005). The verification should be signed by a member of the company's human resource department or one of the business owners or officers. At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

7.2.5 VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Completed within 10 business days of closing
- Confirm that the borrower is employed at time of verification
- Include the name and phone number of the person processing the VVOE
- Include the name, position and phone number of the person providing the verification (employer)
- Telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 10 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau
- Secretary of State listing reflecting current year registration
- Verification of a phone and address listing using the internet

If the documentation is over 30 days old, a processor's certification verifying employment with the CPA is acceptable. An updated Secretary of State listing or phone and address listing from the internet are also acceptable.

7.3 ASSET DOCUMENTATION

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 30 days from closing date or sourced.

Assets must be verified with one of the following:

- Account statements for the most recent months or quarter indicating opening and closing balances and reflecting a consecutive 30 days of asset verification.
 - If account summary page provides the required information, additional pages of the statement are not required.
- Written Verification of Deposit (VOD), completed by the financial institution:
 - Must include the current and average balances for the most recent month.
 - Large disparities between the current balance and the opening balance will require additional verification or supporting documentation.
- Statements provided by third-party asset verification companies are permitted and may be used in lieu of bank statements (e.g., AccountChek, Finicity, Plaid). Statements from a third-party verification company may not be used for bank statement income calculations.

Note: Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc.

8. EMPLOYMENT/INCOME ANALYSIS

8.1 FULL DOCUMENTATION

8.1.1 WAGE EARNERS

Income derived from a consistent hourly, weekly, or monthly wage, must be verified by all of the following:

- W-2s for the most recent year, and
- Pay stub(s) covering the most recent 30-day period providing year-to-date earnings; and
- Signed 4506-C (for W-2 transcripts only); and
- Verbal Verification of Employment (VVOE) completed within 10 business days of closing.

8.1.2 SELF-EMPLOYED BORROWERS

See [8.7.26 Self-Employed Income](#) for detailed documentation requirements.

8.2 ALTERNATIVE INCOME DOCUMENTATION

Alternative Income Documentation is available under the Expanded Prime and Non-Prime programs. See applicable CW Lending matrix for LTV and credit score restrictions.

In lieu of the standard income documentation requirements for self-employed borrowers, the following will be accepted:

- Personal Bank Statements: 12 (or) 24 months complete personal bank statements
- Business Bank Statements: 12 (or) 24 months complete business bank statements
- 1099: 12 (or) 24 months 1099 income
- Profit & Loss: 1-Year Profit and Loss Statement

Self-employed borrowers must be self-employed for at least 2 years, and the business must be in existence for at least 2 years.

See the Expanded Prime Super Jumbo matrix for eligible documentation types.

8.3 PERSONAL BANK STATEMENT DOCUMENTATION

Self-employed borrowers are eligible for Personal Bank Statement Documentation. Borrowers may provide 12 consecutive months of personal bank statements. See the applicable CW Lending matrix for credit score and LTV restrictions. See also [8.2 Alternative Income Documentation](#).

8.3.1 REQUIREMENTS

The following requirements apply to utilize personal bank statements for income:

- Borrower must be self-employed for at least 2 years.
- Business must be in existence for at least 2 years.
- CW Lending Self-Employed Business Narrative Form (or equivalent) is required.
- All parties listed on each bank account must be included as borrowers on the loan.
- Statements must be consecutive and reflect the most recent months available.
- Statements must support stable and generally predictable deposits. Unusual deposits must be documented.
- Multiple bank accounts may be used, but a combination of Personal Bank Statement Documentation and Business Bank Statement Documentation is prohibited.
- Evidence of a decline in earnings may result in disqualification.
- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, see [6.15 Undisclosed Debts](#) for additional guidance.
- 1099 Documentation: 1099 may be obtained to replace 1 calendar year of personal bank statements:
 - 1099 must be validated with a wage and income transcript from the IRS
 - Evidence of YTD earnings must be verified via bank statements covering the YTD period
- W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in [8.1.1 Wage Earners](#).
- Rental Income: Rental income received as a secondary income source may be used when:
 - Bank statements reflecting regular deposits of the rental income for the most recent 3 months are provided (must be from an account not used for income qualification)
 - Rental income calculated at 75% of the current lease minus the full PITIA

8.3.2 DOCUMENTATION

The following documentation is required to utilize personal bank statements for income:

- 12 months complete personal bank statements from the same account (transaction history printouts are not acceptable)
- 1099 in lieu of 12 months personal bank statements, if applicable
- 2 months most recent business bank statements:
 - Statements must evidence activity to support business operations, and
 - Statements must reflect transfers to the personal account being used.
 - Note: If business bank statements are not available, the loan must be submitted/qualified as a Business Bank Statement Documentation loan (see [8.4 Business Bank Statement Documentation](#) for complete requirements).
- CW Lending Self-Employed Business Narrative Form (or equivalent)
- Verification borrower has owned and business has been in existence for 2 years
- Verification of business existence required within 10 business days of closing

8.3.3 ANALYZING THE PERSONAL BANK STATEMENTS

The following requirements apply when analyzing the personal bank statements:

- Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc.
- Transfers from a business account into a personal account are acceptable.
- Transfers between personal accounts must be excluded.
- Evidence of business receipt and expense activity is not permitted in personal bank accounts. Evidence of such activity will require the loan to qualify as a Business Bank Statement Documentation loan (see [8.4 Business Bank Statement Documentation](#)).

8.3.4 CALCULATING QUALIFYING INCOME

Qualifying income using Personal Bank Statement Documentation is either of the following calculations:

Personal Bank Statement Average
total deposits (minus disallowed
deposits) / 12 months

OR

1099 Gross Income Calculation
(total gross 1099 income + YTD
bank statement income) / total
number of applicable months

8.4 BUSINESS BANK STATEMENT DOCUMENTATION

Self-employed borrowers are eligible for Business Bank Statement Documentation. Borrowers may provide 12 consecutive months of business bank statements. See the applicable CW Lending Matrix for credit score and LTV restrictions. See also [8.2 Alternative Income Documentation](#).

8.4.1 REQUIREMENTS

The following requirements apply to utilize business bank statements for income:

- Borrower must be self-employed for at least 2 years.
- Business must be in existence for at least 2 years.
- CW Lending Self-Employed Business Narrative Form (or equivalent) is required.
- Statements must be consecutive and reflect the most recent months available.
- Statements must support stable and generally predictable deposits. Unusual deposits must be documented.
- Multiple bank accounts may be used, but a combination of Personal Bank Statement Documentation and Business Bank Statement Documentation is prohibited.
- Evidence of a decline in earnings may result in disqualification.
- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility.
- If bank statements provided reflect payments being made on obligations not listed on the credit report, see [6.15 Undisclosed Debts](#) for additional guidance.
- 1099 Documentation: 1099 may be obtained to replace 1 calendar year of business bank statements:
 - 1099 must be validated with a wage and income transcript from the IRS
 - Evidence of year-to-date earnings must be verified via bank statements covering the YTD period
- W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in [8.1.1 Wage Earners](#).
- Rental Income: Rental income received as a secondary income source may be used when:
 - Bank statements reflecting regular deposits of the rental income for the most recent 3 months are provided (must be from an account not used for income qualification)
 - Rental income calculated at 75% of the current lease minus the full PITIA

8.4.2 DOCUMENTATION

The following documentation is required to utilize business bank statements for income:

- 12 months complete business bank statements from the same account (transaction history printouts are not acceptable)
- 1099 in lieu of 12 months business bank statements, if applicable
- Required Expense Statement documentation applicable to Calculation Option chosen (see [8.4.4 Calculating Qualifying Income](#) for requirements)
- Verification borrower is minimum 25% owner of business:
 - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent.
 - Qualifying Income must be multiplied by the ownership percentage to determine the owner's portion of income allowed for the transaction.
- CW Lending Self-Employed Business Narrative Form (or equivalent)
- Verification borrower has owned and business has been in existence for 2 years
- Verification of business existence required within 10 business days of closing

8.4.3 ANALYZING THE BUSINESS BANK STATEMENTS

The following requirements apply when analyzing the business bank statements:

- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Large and/or unusual deposits, wire transfers, and transfers from other accounts may require additional documentation including letter of explanation, third party documentation, etc., or may be removed from consideration.
- Statements should show a trend of ending balances that are stable or increasing over time.
- Decreasing or negative ending balances must be explained.
- Expense line items that can be added back to the net business income include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and reoccurring.
- CW Lending reserves the right to require additional information, including but not limited to, 3rd Party Expense Ratio or Profit & Loss Statements, regardless of business type.

8.4.4 CALCULATING QUALIFYING INCOME

To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

8.4.4.1 OPTION I: THIRD-PARTY PREPARED P&L STATEMENT

The P&L Statement must be prepared, signed, and dated by a third-party Tax Professional (defined as a CPA, Tax Attorney, Enrolled Agent (EA), or Paid Tax Professional (PTIN)). The P&L must be provided on the Tax Professional's letterhead addressed to the borrower and must not contain any exculpatory language that may compromise the integrity of the information provided. Reverse verification and validation of the statement must be completed by CW Lending's operations personnel.

Required P&L Statement Documentation:

- P&L Statement covering either the same 1-year period as the bank statements or most recent complete calendar year and
- YTD P&L if the P&L is greater than 120 days old at time of closing.

The monthly gross revenue from the P&L must be supported by the business bank statements provided. Total monthly average deposits per bank statements (minus any disallowed deposits) must be within 20% of monthly gross revenue reflected on P&L. Note: The total eligible deposits calculated with business bank statements is used solely to validate self-employed earnings reported on the P&L.

The sum of disallowed deposits/transfers excluded from the bank statement total may be subtracted from the P&L gross revenue. Total eligible deposits may then be compared to the revised gross revenue amount for validation purposes. If validated within 20%, the revised monthly net income average from the P&L may be used for qualifying income.

$$\text{Net Income} = \frac{\text{Net Income from P\&L} * \text{Borrower Ownership Percentage}}{12 \text{ months}}$$

8.4.4.2 OPTION 2: THIRD-PARTY PREPARED EXPENSE STATEMENT

The Expense Statement must be prepared, signed, and dated by a third-party Tax Professional (defined as a CPA, Tax Attorney, Enrolled Agent (EA), or Paid Tax Professional (PTIN)), specifying business expenses as a percentage of the gross annual sales/revenue prepared. The statement must be provided on the Tax Professional's letterhead addressed to the borrower and must not contain any exculpatory language that may compromise the integrity of the information provided. Reverse verification and validation of the statement must be completed by operations personnel.

Net income from the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by 100 minus the expense percentage provided by CPA or tax preparer, multiplied by the borrower's ownership percentage, and divided by 12 months.

$$\text{Net Income} = \frac{\text{Total Eligible Deposits} * \text{Borrower Ownership Percentage} * (1 - \text{Expense Statement Percentage})}{12 \text{ months}}$$

8.4.4.3 OPTION 3: FIXED EXPENSE RATIO OF 50%

Net income is calculated by determining total eligible deposits per bank statements (minus any disallowed deposits) multiplied by 50% after accounting for the borrower's ownership percentage and divided by 12 months.

$$\text{Net Income} = \frac{\text{Total Eligible Deposits} * \text{Borrower Ownership Percentage} * 50\%}{12 \text{ months}}$$

Note: Option 3 cannot be utilized if third-party documentation indicating an expense ratio greater than 50% has been disclosed.

8.5 I-YEAR PROFIT AND LOSS STATEMENT

Self-employed borrowers are eligible for I-Year Profit and Loss Statement Documentation. Borrowers may provide a 12-month P&L prepared by a CPA, Enrolled Agent (EA), or California Tax Education Council-registered tax preparer (CTEC). See the applicable CW Lending Matrix for credit score and LTV restrictions. See also [8.2 Alternative Income Documentation](#).

8.5.1 REQUIREMENTS

The following requirements apply to utilize a I-Year Profit and Loss Statement for income:

- Borrower must be self-employed for at least 2 years.
- Business must be a U.S. domestic company and in existence for at least 2 years.
- CW Lending Self-Employed Business Narrative Form (or equivalent) is required.
- Borrower must meet a minimum 50% business ownership percentage.
- Satisfactory internet search of the business is required to support existence of the business.
- Borrowers who self-prepare their own taxes are not permitted.

8.5.2 DOCUMENTATION

The following documentation is required to utilize a I-Year Profit and Loss Statement for income:

- Profit and Loss Statement must be prepared by a licensed, independent CPA, Enrolled Agent (EA), or California Tax Education Council-registered tax preparer (CTEC). Tax preparer preparing the P&L must attest to the following:
 - Tax preparer has filed the borrower's most recent business and personal tax returns.
 - Tax preparer has analyzed the business financial statements during preparation of the P&L.
 - Tax preparer is not related to the borrower or associated with the borrower's business.
 - minimum of 2 months business bank statements covering the most recent 2-month period are required. Business bank statements are also required for all I-Year Profit and Loss Statement transactions under the Non-Prime Program. See [8.5.3.1 Using Bank Statements to Support the P&L](#).
- P&L Statement must be signed by tax preparer and borrower and dated within 90 days of closing.
- P&L Statement must be prepared on tax preparer's company letterhead and must not contain any exculpatory language that may compromise the integrity of the information provided.
- Reverse verification and validation of the tax preparer must be completed by CW Lending's operations personnel.
- Validation of self-employment and business existence for a minimum of 2 years.

8.5.3 CALCULATING QUALIFYING INCOME

Standard expense line items limited to depreciation, depletion, amortization, and casualty loss may be added back to the net figure. The income calculation is as follows:

$$\text{Net Income} = \frac{\text{Net Income from P\&L} * \text{Borrower Ownership Percentage}}{12 \text{ Months}}$$

8.5.3.1 USING BANK STATEMENTS TO SUPPORT THE P&L

The average monthly gross revenue from the P&L must be supported by the 2 months business bank statements provided. Business bank statements are also required for all 1-Year Profit and Loss Statement transactions under the Non-Prime Program.

Total monthly average deposits per bank statements (minus any disallowed deposits) must be within 35% of average monthly gross revenue reflected on P&L. If validated within 35%, the monthly net income average from the P&L may be used for qualifying income.

Note: The total eligible deposits calculated with business bank statements is used solely to validate self-employed earnings reported on the P&L.

8.6 EMPLOYMENT HISTORY

Employment must be stable with at least a 2-year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

8.6.1 FREQUENT JOB CHANGES

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

8.6.2 GAPS IN EMPLOYMENT

If the 1003 or other loan documentation suggests there may be a gap in employment, the gap must be addressed. The borrower should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24.

Recent graduates and borrowers re-entering the workforce after an extended period are allowed.

8.7 SOURCES OF INCOME

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 1- or 2-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

See [8.1 Full Documentation](#) for detailed income documentation requirements.

8.7.1 ANNUITY INCOME

Annuity income can be used for qualification when the following requirements are met:

- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.

For annuity distributions from a 401(k) or pension, see [8.7.2.1 Pension/Retirement](#).

8.7.2 ASSET UTILIZATION

Asset Utilization may be used to determine qualifying income. See the applicable CW Lending matrix for credit score and LTV restrictions. Asset Utilization is allowed under the Expanded Prime Program only and may not be used on cash-out transactions. Not permitted for ITIN borrowers or under the Expanded Prime Super Jumbo Program.

Qualified Assets can be comprised of personally held stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. All parties listed on each bank account must be included as borrowers on the loan. Business accounts and foreign assets are prohibited. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination.

6-month seasoning of all assets is required. All asset documentation may not be more than 30 days old at the time of closing.

The following personal assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 100% of assets in a trust when the borrower is the sole beneficiary
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets

To calculate qualifying income using Asset Utilization, choose one of the following two options: Debt Ratio Calculation or Total Asset Calculation.

8.7.2.1 OPTION 1: DEBT RATIO CALCULATION

Borrowers must have a minimum of the lesser of (a) 1.5 times the loan balance or (b) \$500,000 in Qualified Assets, both of which must be net of down payment, closing costs, and required reserves to qualify. See the applicable CW Lending matrix for max debt ratios.

The income calculation is as follows:

$$\text{Monthly Income} = \text{Net Qualified Assets} / 84 \text{ Months}$$

8.7.2.2. OPTION 2: TOTAL ASSET CALCULATION

Qualified Assets must be sufficient to cover the new loan amount, down payment, closing costs, required reserves, and 5 years of current monthly obligations.

There is no debt ratio calculation for the Total Asset Calculation option. Employment and Income are not required to be disclosed on the 1003.

8.7.3 AUTOMOBILE ALLOWANCE

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

8.7.4 BONUS AND OVERTIME

Bonus and overtime can be used to qualify if the borrower has received the income for the past 1 year and it is likely to continue. An average of bonus or overtime income should be used, when available.

A written Verification of Employment (FNMA Form 1005) should be obtained to provide a breakdown of bonus or overtime earnings. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

8.7.5 CAPITAL GAINS

When income from capital gains is used to qualify the borrower, tax returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain appears to be a onetime occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving the capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.

In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

8.7.6 CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

In order for child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements
- Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Note: CW Lending expects lenders originating loans for sale to CW Lending to make appropriate disclosures, as required under the federal Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

8.7.7 COMMISSION INCOME

Commission earnings should be averaged over the most recent 1 year and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent year period or a complete written Verification of Employment

If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a decline in earnings from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

8.7.8 DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline equal to or greater than 25% over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

8.7.9 DISABILITY INCOME

Long-term and temporary leave income can be used for qualification. In documenting disability income, lenders originating loans to CW Lending must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

8.7.9.1 LONG-TERM DISABILITY INCOME

Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:

- the borrower's current eligibility for the disability benefits,
- the amount and frequency of the disability payments, and
- if there is a contractually established termination or modification date.

If a borrower is currently receiving short-term disability payments that will decrease within the next 3 years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower.

8.7.9.2 TEMPORARY LEAVE INCOME

Temporary leave income requires the following documentation:

- Signed letter from borrower stating intent to return to work,
- Evidence of the return to work date from employer,
- Amount and duration of the temporary leave income, and
- Amount of regular employment income borrower received prior to the temporary leave.

If the borrower will return to work as of the first loan payment date, the borrower's regular employment income can be used in qualifying. If the borrower will not return to work as of the first loan payment date, the lesser of the borrower's temporary leave income or regular employment income will be used.

8.7.10 DIVIDEND/INTEREST INCOME

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- 2 most recent years federal income tax returns received supporting a 2-year history of receipt; and
- Verification of stock asset values no older than 30 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.

8.7.11 EMPLOYMENT BY A RELATIVE

Income for borrowers who are employed by a relative must be verified with all of the following:

- Federal income tax returns for the most recent 2 years;
- W-2s for the most recent 2 years; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

8.7.12 EMPLOYMENT OFFERS AND CONTRACTS

8.7.12.1. START DATE PRIOR TO LOAN CLOSING

If the borrower is scheduled to begin employment under the terms of an employment offer or contract, an executed copy of the borrower's offer or contract for future employment and anticipated income must be obtained. A pay stub that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be provided prior to closing.

8.7.12.2. START DATE AFTER LOAN CLOSING

If the borrower will not begin employment until after loan closing, a pay stub may be obtained after closing when each of the following criteria is met:

- purchase transaction
- principal residence
- one-unit property
- borrower is not employed by a family member or by an interested party to the transaction
- the borrower is qualified using only fixed based income.

The borrower's offer or contract for future employment must be provided. The employment offer or contract must:

- clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
- clearly identify the terms of employment, including position, type and rate of pay, and start date; and
- be non-contingent (Note: If conditions of employment exist, the Underwriter must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation).

For a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment

If the borrower's start date is no more than 30 days prior to the note date, a verbal verification of employment that confirms active employment status must be obtained.

If the borrower's start date is no more than 90 days after the note date, one of the following must be documented (in addition to the amount of reserves required for the transaction):

- Financial reserves sufficient to cover PITIA for the subject property for 6 months; or
- Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. Financial resources may include:
 - financial reserves, and
 - current income.

Note: Current income refers to net income that is currently being received by the borrower (or co-borrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the amount of income the borrower is expected to receive between the note date and the employment start date may be used. If the current income is not being used for qualifying purposes, it can be documented using standard documentation, such as a pay stub, but a verification of employment is not required.

8.7.13 FOREIGN INCOME

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. federal income tax returns reflecting the foreign income
- Income is translated to U.S. dollars
- Standard income stability and continuance requirements are met
- Standard documentation requirements apply based on the type of income
- Income from sanctioned countries administered by OFAC is not allowed

8.7.14 FOSTER CARE INCOME

Income derived from foster care payments may be considered if there is a 2-year history of receipt and it is expected to continue for the next 3 years.

The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposit of the payments, or by providing federal income tax returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Income must be averaged over the 2-year period and may not be considered for children who will reach the age of 19 within 3 years.

8.7.15 HOURLY WAGES

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

8.7.16 LUMP-SUM DISTRIBUTIONS

Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source. See [8.7.10 Dividend/Interest Income](#) for related allowable income sources.

8.7.17 MINISTER/CLERGY INCOME

Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.

The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

8.7.18 NON-TAXABLE INCOME

Non-taxable income can be grossed up by 25%. Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.

Some income types may contain both taxable and non-taxable income. Federal income tax returns may be required to accurately determine the non-taxable portion.

Income may not be grossed-up for calculating Residual Income.

8.7.19 NOTES RECEIVABLE INCOME

Income from notes receivables can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent 2-year period (including Schedule B) and bank statements showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

Evidence of receipt for the last 12 months must be verified with either canceled checks, bank deposit slips, or federal income tax returns. A copy of the note verifying payment amount and remaining term of at least 3 years must also be obtained.

8.7.20 PART-TIME/SECOND JOB INCOME

Income from part-time employment or a second job can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2-year period.

8.7.21 PENSION/RETIREMENT

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income
- Copy of retirement award letters
- Tax returns for the most recent 2 years
- W-2 forms or 1099 forms for the most recent 2 years
- Bank statements reflecting regular deposits for the most recent 2 months

8.7.21.1 PROOF OF CONTINUANCE

If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves. See also [10.3.14 Retirement Accounts](#).

8.7.21.2 FORTHCOMING RETIREMENT

Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income. Effective income for borrowers planning to retire (or end employment for other reasons) during the period must include the amount of documented retirement or other benefits to be received, Social Security payments, or other payments expected to be received in retirement. A combination of present earnings and future retirement income does not represent a supportable level of earnings.

8.7.22 PUBLIC ASSISTANCE

Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letter or copies of grant statements.

In documenting and evaluating public assistance income, CW Lending expects sellers to comply fully with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

8.7.23 RENTAL INCOME

Rental income can be used for qualifying when disclosed on the loan application. Gross market rent must be documented with FNMA Form 1007 or Form 1025, as applicable, when rental income from the subject property is being used to qualify.

Note: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

8.7.23.1 INCOME OR LOSS

The treatment of the monthly qualifying rental income or loss in the total debt-to-income ratio varies based on occupancy of the property.

If the property is a primary residence, the following applies:

- The monthly qualifying rental income must be added to the borrower's total monthly income (income is not netted against the PITIA); and
- The full PITIA must be included in the borrower's total monthly obligations when calculating the DTI.

If the rental income or loss relates to a property other than the borrower's primary residence, the following calculations apply:

- If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations
- The full PITIA for the rental property is factored into the amount of the net rental income or loss; therefore, it should not be counted as a monthly obligation

8.7.23.2 CALCULATING RENTAL INCOME FROM THE SUBJECT PROPERTY

Rental income from the subject property owned prior to loan application should be calculated using the borrower's most recent federal income tax return (Cash Flow Analysis of Schedule E). Net rental losses should be included in ratios as a liability.

Rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the borrower's most recent federal income tax return (if applicable).

Rental income from a new property being acquired through a purchase transaction can be used to qualify, using the lesser of:

- 75% of the current lease minus the full PITIA (evidence of deposit must be obtained); or
- 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable, minus the full PITIA.

If no lease exists and rental income is calculated using only the appraiser's opinion of rent, an additional 3 months PITIA reserves is required.

Note: If the property generating rental income is also the primary residence, refer to the primary residence calculation outlined in [8.7.23.1 Income or Loss](#).

8.7.23.3 RENTAL INCOME FROM OTHER REAL ESTATE OWNED

Rental income from another property owned prior to loan application should be calculated using the borrower's federal tax return (Cash Flow Analysis of Schedule E). Net rental losses should be included in ratios as a liability.

For properties owned for less than 2 years, rental income should be calculated using the lesser of:

- 75% of the current lease minus the full PITIA; or
- Cash flow analysis of the Schedule E from the borrower's most recent federal income tax return (if applicable).

8.7.23.4 RENTAL INCOME FROM DEPARTING RESIDENCE

Rental income from a departure residence can be used to qualify. The property may not be rented to a relative.

When the borrower has less than 2 years property management experience, the following documentation is required:

- Departing residence LTV is 75% or less:
 - Copy of lease
 - Evidence of security deposit and/or first month of rent
 - 1007 or online rent estimate (Zillow Rent Zestimate or equivalent)
 - 25% vacancy factor to be used on lower of lease or market rent
 - 4 months PITIA departing residence reserves
- Departing residence LTV is 75.01% to 90%:
 - Copy of lease
 - Evidence of security deposit and/or first month of rent
 - 1007 or online rent estimate (Zillow Rent Zestimate or equivalent)
 - 25% vacancy factor to be used on lower of lease or market rent
 - 6 months PITI reserves departing residence

When the borrower has 2 or more years property management experience, the following documentation is required:

- Copy of lease
- Evidence of security deposit and/or first month of rent
- 1007 or Online rent estimate (Zillow Rent Zestimate or equivalent)
- 25% vacancy factor to be used on lower of lease or market rent
- Reserves not required on departing residence

8.7.23.5 CASH FLOW ANALYSIS OF SCHEDULE E

Cash Flow Analysis of Schedule E should be completed as follows:

Gross Rents and Royalties Received

- Total Expenses

+ Depreciation

+ Insurance

+ Mortgage Interest

+ Taxes

+ HOA fees (if included on Schedule E)

Subtotal

Subtotal / 12 = Monthly Total

Monthly Total

- Proposed or Existing Monthly PITIA

MONTHLY NET RENTAL INCOME/LOSS

8.7.24 RESTRICTED STOCK UNIT INCOME

Restricted stock units and restricted stock (referred to collectively as "restricted stock") are granted by an employer to its employees as a form of compensation based on either performance or time. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. After they vest, the employee may sell the shares at the current price or hold the stock for future sale.

To be used as qualifying income:

- The restricted stock income is calculated using a 2-year average.
- The restricted stock must have vested and been distributed to the borrower without restrictions.
- If the restricted stock income is declining, proof of stability must be provided, and the most conservative average used for qualifying.

Note: Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered by the lender as qualifying income.

The following documentation is required:

- Evidence stock is publicly traded;
- Current vesting schedule reflecting past and future vesting;
- Brokerage or bank statement showing receipt of previous years' distribution of restricted stock and, at a minimum, the number of vested shares or cash equivalent;
- A completed Verification of Employment (FNMA Form 1005) that shows restricted stock distributions, or the borrower's recent pay stub showing receipt of restricted stock income; and
- Borrower's IRS W-2 forms covering the most recent 2-year period.

The calculation method for restricted stock income will vary depending on whether payment is made in shares or cash.

$$\text{Income Paid in Shares} = \frac{\text{200-Day Moving Average of share price} * \text{Total number of distributed vested shares (pre-tax) in most recent 24 months}}{24 \text{ months}}$$

$$\text{Income Paid in Cash} = \frac{\text{Total cash distributed (pre-tax) equal to the total value of vested shares in the most recent 24 months}}{24 \text{ months}}$$

8.7.25 SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers rehire. Seasonal income should be averaged over a 2-year period.

8.7.26 SELF-EMPLOYED INCOME

A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S corporation.

To utilize self-employed income for loan qualification, borrowers must be self-employed for at least 2 years and the business must be in existence for at least 2 years. Less than 2 years can be considered with documentation of a minimum of 2 years employment history in the same line of work or related profession. Less than 1 year may not be considered.

A CW Lending Self-Employed Business Narrative Form (or equivalent) is also required all self-employed borrowers when using alternative income documentation.

8.7.26.1 SOLE PROPRIETORSHIP

A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's Schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:

- Federal income tax return (IRS Form 1040) for the most recent complete year, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax return provided); and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

8.7.26.2 PARTNERSHIPS

A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.

Documents required for determining partnership income are:

- Federal income tax return (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent complete year (if applicable); and
- Partnership tax return (IRS Form 1065) for the most recent complete year, including all schedules and K-1s (Note: If borrower is a limited partner with less than 50% ownership, partnership tax return is not required); and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax return provided); and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

8.7.26.3 CORPORATIONS

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered to be self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax return (IRS Form 1120).

Documents required for determining income from a corporation:

- Federal income tax return (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent year; and
- Corporate tax return (IRS Form 1120) for the most recent complete year, including all schedules; and
- Year-to-date profit and loss statement (if the loan application is > 120 days after the year-end reflected on the most recent business tax returns provided); and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

8.7.26.4 S CORPORATIONS

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation:

- Federal income tax return (IRS Form 1040) for the most recent complete year, including all schedules; and
- W-2s for the most recent year; and
- Corporate tax return (IRS Form 1120-S) for the most recent complete year, including all schedules and K-1s; and
- Year-to-date profit and loss statement if the loan application is dated more than 120 days after the end of the business's tax year; and
- Signed and processed IRS Form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 10 business days of closing.

8.7.26.5 1099 INCOME

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's Schedule C. Documentation of 1099 income is considered Alternative Income Documentation. See matrix for specific restrictions.

To utilize 1099 income, the following requirements must be met:

- 1099 for the most recent complete year is provided
- Borrower has been with same 1099 provider for the past 2 years
- 1099s are validated with a wage and income transcript from the IRS
- Year-to-date earnings are verified via a YTD pay stub, written VOE, or other equivalent third-party documentation (CW Lending 'Request for Verification of Earnings' Form also acceptable)
- Documentation is obtained from employer confirming borrower has no job-related expenses
- CW Lending Self-Employed Business Narrative Form (or equivalent) is required.

8.7.26.6 CW LENDING SELF-EMPLOYED BUSINESS NARRATIVE FORM

Self-employed borrowers using alternative income documentation must complete the CW Lending Self-Employed Business Narrative Form (or equivalent) providing a description of the business, ownership percentages, and any additional details related to transactions within the bank statements. Self-employed borrowers using full income documentation are not required to provide a business narrative.

An internet search of the business is required with documentation to be included in the credit file to support the business narrative. Underwriter Certification (or notation on the I008) is required if there are no returns when attempting an internet search.

8.7.26.7 REDUCED DOCUMENTATION FOR A SECONDARY BUSINESS

Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met:

- Income/loss referenced on personal tax returns is generated from a secondary business that is not the borrower's primary income source; and
- Income/loss from each separate business is $\leq 10\%$ of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

8.7.26.8 CASH FLOW ANALYSIS

The seller must prepare a written evaluation of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's federal income tax returns. A copy of the seller's written analysis must be included in the loan file.

8.7.27 SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all of the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also [8.7.18 Non-Taxable Income](#).

8.7.28 TEACHER INCOME

Teachers are paid on a 9-month, 10-month or 12-month basis. The pay structure should be determined before calculating the monthly income. If uncertainty exists, the borrower may provide a copy of their contract or the school district's personnel office may provide verbal confirmation.

8.7.29 TIPS AND GRATUITIES

Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented through the most recent year-to-date pay stubs.

8.7.30 TRAILING SPOUSE OR CO-BORROWER INCOME/RELOCATION

Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

8.7.31 TRUST INCOME

Trust income can be used for qualification when all of the following requirements are met:

- Copy of the trust agreement or the trustee's statement must be obtained to confirm the amount, frequency, and duration of payments;
- Trust income to continue for at least 3 years from date of the mortgage application; and
- History of receiving the trust income must be documented for 1 month.

Lump-sum distributions from the trust made prior to loan closing can be used for down payment or closing costs if the withdrawal does not affect the qualifying amount of continuing distributions to the borrower. The funds must be verified by a copy of the check or the trustee's letter that shows the distribution amount. See also [10.3.20 Trust Accounts](#).

8.7.32 UNEMPLOYMENT COMPENSATION

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income can be used to qualify on with a 2-year employment history in the same field of work and a 2-year history of receipt of unemployment compensation. Income should be averaged over the time period verified.

8.7.33 VA SURVIVORS' BENEFITS/DEPENDENT CARE

VA benefits must be documented with a copy of the award letter or distribution forms and must continue for at least 3 years.

8.7.34 VIRTUAL CURRENCY

Any income paid to or earned by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan.

8.7.35 UNACCEPTABLE INCOME

- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement
- Proceeds of SBA/PPP loans or any other government assistance
- Boarder income

9. RATIOS AND QUALIFYING

9.1 RATIOS

The maximum DTI allowed for most programs is 50%. The maximum DTI for the Expanded Prime Super Jumbo Program is 35%. See applicable matrix for other DTI restrictions.

DTI > 50% to ≤ 55% is allowed when all of the following parameters are met:

- Expanded Prime program only
- Primary residence only
- Minimum 700 FICO
- Max 80% LTV/CLTV
- First-Time Home Buyers and ITIN borrowers not allowed
- Not allowed on the Expanded Prime Super Jumbo Program

9.2 RESIDUAL INCOME

Residual income is required for all primary and second home transactions using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} - \text{Total Monthly Obligations}$$

Residual Income of \$2,500 is required for the Expanded Prime Program and \$1,500 for the Non-Prime Program. An additional \$150 per dependent must also be included for all programs. The initial 1003 should reflect the number of dependents for all borrowers on the transaction.

9.3 PAYMENT SHOCK

Payment Shock is limited to 300% on primary residence transactions, and is calculated as follows:

$$\text{Payment Shock} = (\text{Proposed Housing Payment} / \text{Present Housing Payment}) * 100$$

Payment Shock may be exceeded when one of the following factors is present:

- Residual Income \geq \$2,500
- Debt-to-Income Ratio \leq 35%
- Housing Ratio \leq 25%
- Reserves exceed minimum required by at least 3 months
- Borrowers' own funds contribution exceeds minimum required by at least 5%
- All consumer credit paid as agreed in the most recent 12 months

Calculation is based upon the current monthly housing payment and proposed mortgage payment. When the current payment has been made for less than 12 months, the payment made for the longest period during the last 24 months should be used.

For borrowers who have less than a 12-month housing history, do not have a current housing payment, or own a home free and clear, payment is shock is not considered. See [5.5.1 No Housing History or Less Than 12 Months Verified](#).

9.4 ADJUSTABLE-RATE QUALIFYING

For all ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index. See the applicable CW Lending matrix for the margin, index, and other restrictions.

9.5 INTEREST-ONLY QUALIFYING

Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA.

See applicable CW Lending rate sheet for the most up-to-date products and pricing.

10. ASSET ANALYSIS

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves. A borrower's or guarantor's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances.

See [7.3 Asset Documentation](#) for sourcing and seasoning requirements.

10.1 DOWN PAYMENT

See applicable CW Lending matrix for specific LTV and down payment requirements.

10.2 RESERVES

Reserves are measured by the number of months of housing expense a borrower could pay using his or her financial assets. See the applicable CW Lending matrix for complete reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

Net proceeds from cash-out transactions may be used to meet the reserve requirement.

Additional reserves are required when the following situations are present:

- [Multiple Financed Properties](#): 2 months for each additional property
- [Use of Rental Income Without a Lease](#): 3 months in addition to standard requirement
- [First-Time Home Buyer](#): 6 months
- [No Housing History or Less Than 12 Months Verified](#): 6 months
- [Use of Rental Income from a Departing Residence](#): see guidelines for specific requirements

10.3 VERIFICATION OF ASSETS

10.3.1 BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, stocks and/or bonds, and 401(k) accounts. Funds secured against a borrower-owned business are prohibited.

The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.

The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).

If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

10.3.2 BUSINESS ASSETS

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers.

The borrowers on the loan must have a minimum of 50% ownership of the business and must be owners on the business account. Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent. All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to funds in the account. The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of business assets allowed for the transaction.

10.3.3 DEPOSITORY ACCOUNTS

Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts can be used for down payment, closing costs, and reserves.

Indications of borrowed funds must be investigated, including recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. A signed, written explanation of the source of funds should be obtained from the borrower and the source of funds verified. Unverified funds are not acceptable. See also [7.3 Asset Documentation](#).

If the borrower does not hold the deposit account solely, all non-borrower parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [10.3.17 Spousal Accounts](#).

If bank statements provided reflect payments being made on obligations not listed on the credit report, see [6.15 Undisclosed Debts](#) for additional guidance.

10.3.4 EARNEST MONEY/CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Virtual currency may not be used for earnest money.

Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check
- Certification from the deposit holder acknowledging receipt of funds
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

10.3.5 GIFT FUNDS

Gift funds can be used for down payment, closing costs, and reserves on all CW Lending programs after the borrower has documented the minimum required borrower contribution as detailed in [10.3.11 Minimum Borrower Contribution](#).

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship
- a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent

A signed gift letter is required to provide all of the following information:

- Donor's name, address, phone, and relationship to borrower; and
- Dollar amount of gift; and
- Date funds were transferred; and
- Donor's statement that no repayment is expected.

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip
- Copy of the donor's withdrawal slip and the borrower's deposit slip
- Copy of the donor's check to the closing agent
- Evidence of wire transfer from donor to borrower
- Settlement statement showing receipt of the donor's check

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

See also [10.3.17 Spousal Accounts](#).

10.3.6 GIFT OF EQUITY

Gifts of equity on non-arm's length transactions are allowed. Transactions with gifts of equity are subject to the maximum LTVs available for cash-out transactions, and no minimum borrower contribution is required.

The following requirements apply:

- Primary residence transactions only
- Gift of equity is from an immediate family member
- 6 months of reserves required of borrower's own funds
- Non-arm's length criteria is met
- Signed gift letter is provided
- Gift of equity is listed on the settlement statement

10.3.7 FOREIGN ASSETS

All funds required for down payment, closing costs, and reserves must be seasoned for 30 days. Foreign assets deposited into a U.S. institution within 30 days of application are acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides. It must also be established that the funds belonged to the borrower before the date of transfer.

Funds required for closing (down payment and closing costs) must be documented as currently available for withdraw from a U.S. depository institution or seasoned in a U.S. depository institution for 30 days prior to closing, whichever comes first.

Assets held in a foreign account can be used for reserves. The most recent 30-day account statement is required, and funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained. Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance. Any translation must be signed and dated by a certified translator.

10.3.8 INTERESTED PARTY CONTRIBUTIONS

MAXIMUM CONTRIBUTIONS		
OCCUPANCY	LTV	MAX PERCENTAGE
Primary and 2 nd Homes	ALL	6%
Investment	ALL	6%

Note: *Percentage is based on the lesser of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.*

Sales concessions include:

- Financing concessions in excess of the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

10.3.9 LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

If the funds are needed for the down payment or closing costs, borrower's receipt of the funds from the insurance company must be documented by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer. If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.

Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves. If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio. If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

10.3.10 LIKE-KIND EXCHANGE (1031 EXCHANGE)

Like-Kind Exchanges Assets for the down payment from a “like-kind exchange,” also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

10.3.11 MINIMUM BORROWER CONTRIBUTION

Unless otherwise noted, borrowers must document a minimum of 5% (of the sales price) of their own funds on purchase transactions.

Under the Expanded Prime Program only, no minimum borrower contribution is required on primary residence purchase transactions when the LTV is $\leq 80\%$. See the Expanded Prime Super Jumbo Matrix for minimum contribution requirements.

A minimum borrower contribution of 10% must be documented on the following transactions:

- Primary residence with unverifiable housing history
- Second home
- Investment property
- Limited trades

Note: Business Assets may be used to meet the borrower’s minimum contribution. See also [10.3.2 Business Assets](#) for documentation requirements.

10.3.12 NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower’s current home, a final settlement statement verifying sufficient net proceeds must be obtained.

10.3.13 RENT CREDIT FOR LEASE WITH PURCHASE OPTION

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See [3.12 Lease with Purchase Option](#) for full requirements.

The following documentation must be obtained:

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease
- Copies of the borrower’s canceled checks or money order receipts for the last 12 months evidencing the rental payments
- Market rent as determined by the subject property appraisal

10.3.14 RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified, and the account must be vested and allow withdrawals regardless of current employment status. 70% of the vested balance may be used.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of [10.3.19 Stocks, Bonds, and Mutual Funds](#) for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.

If the borrower intends to use the retirement account to also satisfy income requirements, see [also 8.7.21.1 Proof of Continuance](#).

10.3.15 SALE OF PERSONAL ASSETS

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction.

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check

10.3.16 SECONDARY/SUBORDINATE FINANCING

Secondary or subordinate financing is allowed with a maximum CLTV equaling maximum LTV per matrix. Existing secondary financing is not permitted for investor-occupied properties. For the Community Equity Edge Program, see [14 Community Equity Edge](#) for program-specific guidelines.

If the subordinate financing has a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is being subordinated, the following is required:

- The repayment terms of the existing second lien;
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off through closing. See [3.4 Rate/Term Refinance](#) and [3.5 Cash-out Refinance](#) for more information.

10.3.17 SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in [7.3 Asset Documentation](#).

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.

10.3.18 STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price

10.3.19 STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.

When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

10.3.20 TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.

To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.
- See [8.7.31 Trust Income](#) if trust is also being used as a source of income to qualify the borrower.

10.3.21 VIRTUAL CURRENCY

Virtual currency that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and reserves provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. Sufficient documentation must be obtained to verify the funds originated from the borrower's virtual currency account. Virtual currency may not be used for earnest money for the purchase of the subject property.

Note: Payment on any debt secured by virtual currency must be included when calculating the debt-to-income ratio.

10.3.22 UNACCEPTABLE FUNDS

- Cash-on-hand
- Sweat equity
- Gift or grant funds which must be repaid
- Down payment assistance programs
- Unsecured loans or cash advances
- Section 8 Voucher Assistance
- Proceeds of SBA/PPP loans or any other government assistance

II. PROPERTY

II.I GENERAL PROPERTY REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The seller is responsible for all of the following:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage
- Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property
- Ensuring that the appraiser provides his or her license or certification on the appraisal report
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction
- Ordering and receiving the appraisal report for each mortgage transaction
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value

11.2 UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR)

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used, when applicable:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

11.2.1 APPRAISAL REPORT REQUIREMENTS

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparables used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparables used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and statement assumptions and limiting conditions signed by the appraiser.

11.2.2 APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

11.2.3 ELECTRONIC SUBMISSION OF APPRAISAL REPORT

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

11.2.4 TRANSFERRED APPRAISALS

Transferred appraisals are only allowed when the seller has received approval from CW Lending in advance for their appraisal transfer policy in order to ensure compliance with the Home Valuation Code of Conduct (HVCC) and Appraiser Independence Requirements.

11.2.5 AGE OF APPRAISAL AND APPRAISAL UPDATES

Properties must be appraised within the 12 months that precede the date of the note and mortgage.

When an appraisal report will be more than 4 months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), with an exterior photo of the front of the subject property. Interior photos are also required if the appraisal was completed 'subject to completion' or 'subject to repairs.'

If the appraiser indicates on the Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.

- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

Note: The appraisal update must occur within the 4 months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, substitute appraisers may be used. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The file must be noted as to why the original appraiser was not used.

II.3 MINIMUM PROPERTY STANDARDS

All properties must:

- Be improved real property
- Be designed and available for year around residential use
- Contain a kitchen and a bathroom
- Contain a minimum of 600 square feet of gross living area
- Bedroom(s) are separate from the main living area.
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition
- Represent the “highest and best” use of the subject
- Be free of all health and safety violations
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property

II.4 PROPERTY LOCATION

See applicable CW Lending matrix. Subject property must be subject to the laws of the state in which the loan is made.

II.5 ELIGIBLE PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties*	Yes
Condominium (low-rise and high-rise)*	Yes
Log Homes*	Yes
Modular Homes*	Yes
Site Condominium	Yes
Non-Warrantable Condominiums*	Yes
Mixed-Use Properties	No
Agricultural or Commercial Zoned	No
Assisted Living/Continuing Care Facilities	No
Boarding Houses	No
Co-operative Units	No
Condotels or Condo Hotels	No
Farms or Hobby Farms	No
Manufactured Homes	No
Properties Subject to Rent Control Regulations	No
Row Homes	No
Shared Housing and/or Student Housing	No
Single Room Occupancy (SRO)	No
Unique Properties (Earth Homes, Berm Homes, Dome Homes, Barndominiums, Shouses, Geodomes, etc.)	No
<i>*See the applicable CW Lending matrix for LTV restrictions.</i>	

11.6 MARKET ANALYSIS

11.6.1 NEIGHBORHOOD REVIEW

The neighborhood section should contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time

11.6.2 COMPATIBILITY OF SUBJECT PROPERTY AND NEIGHBORHOOD

The age and price of the subject property should generally be within the age and price ranges of properties in the subject neighborhood as reported on the URAR. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use are considered.

11.6.3 PROXIMITY OF COMPARABLES TO SUBJECT PROPERTY

Whenever possible, comparable sales in the same neighborhood as the subject property should be used. Sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics.

For properties in established subdivisions, condo projects or PUDs, comparable sales from within the same subdivision or project as the subject property must be used if the subdivision or project has resale activity. Use of comparable properties located outside of the established subject neighborhood must be explained in the appraisal analysis.

For properties in new subdivisions, condo projects or PUDs, the subject property must be compared to other properties in its general market area as well as to properties within the subject subdivision or project. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property.

11.6.4 AGE OF COMPARABLES

Generally, appraisals should contain comparables sales dated within 6 months from the report date. Comparables from 6 to 12 months are permitted on a limited basis with an explanation from the appraiser. Older comparable sales that are the best indicator of value for the subject property may be used if appropriate. Value must be supported and market acceptance demonstrated when older comparables are utilized.

11.6.5 PROPERTY VALUES WITHIN MARKET AREA

The value of subject property should be in line with the home prices in the subject's market area. The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the following:

- the trend of property values
- the supply of properties in the subject neighborhood
- marketing time for properties

The appraiser must provide their conclusions for the reasons a market is experiencing declining property values, an over-supply of properties, or marketing times over 6 months. If the appraisal indicates the property is located within a declining market, a 5% LTV reduction is required.

11.6.6 REDLINING PROHIBITION

Prohibited bases such as race, ethnicity, gender, minority geography or any other prohibited basis category should not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g., race or minority geography) are not acceptable. The use of code phrases as proxies for race which are not necessarily descriptive of value or risk is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

11.6.7 OVER-IMPROVEMENTS

An over-improvement is an improvement that costs more than its contributory value within the marketplace. The appraiser must comment on over-improvements and indicate their contributory value in the "sales comparison analysis" adjustment grid. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range—such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. Appraisals on properties with over-improvements that may not be acceptable to the typical purchaser must be reviewed to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

11.7 VALUATION ANALYSIS

11.7.1 SALES COMPARISON APPROACH

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller of property are typically motivated
- Both parties are well informed or well advised, acting in what they consider their best interest
- A reasonable time is allowed for exposure in the open market
- Payment is made in terms of cash in US dollars or in terms of comparable financial arrangements comparable
- The price represents the normal consideration for the subject property sold unaffected by special financing or sales concessions granted by anyone associated with the sale

A minimum of 3 closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Comparable sales utilized in the market approach should:

- Be within one mile of the subject property
- Have been closed within the last 6 months
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.
- Result in an overall net adjustment not exceeding 15% of the sales price of that comparable and a gross adjustment not exceeding 25% of the sales price of that comparable
- Reflect adjustments for individual line items not exceeding 10%
- Have a sales price that is within the general range of value as the subject
- Have at least 3 of the comparables should be recently closed sales

In instances where comparables conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

11.7.2 COST APPROACH

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring properties. See also [11.8.12 Land Value and Acreage](#). Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

11.7.3 INCOME APPROACH

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

11.7.4 VALUATION ANALYSIS AND FINAL RECONCILIATION

In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with validity of the indicated values. The appraiser must select and report the approaches that were given the most weight. An averaging technique cannot be used.

11.7.5 APPRAISAL REVIEW PROCESS

The Appraisal Review Process requires a secondary appraisal product to support the appraised value for all transactions. Examples of acceptable appraisal review products include:

- AVM from approved provider with acceptable forecast standard deviation (FSD) score and confidence rating:
 - Approved providers include:
 - Clear Capital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius,
 - Quantarium, and
 - Veros
 - Acceptable confidence ratings for Clear Capital only are $\geq 87\%$ and FSD scores are ≤ 0.13 .
 - Acceptable confidence ratings for all other providers are $\geq 90\%$ and FSD scores are ≤ 0.10 .
 - All AVMs must include property condition report or comparable report.
 - Note: If the AVM does not **meet the confidence rating and FSD requirements above, a Clear Capital Residential Evaluation is acceptable for the following states:**

- AL, AK, AZ, CA, CO, FL, GA, IL, IN, IA, KY, ME, MD, MA, MI, MO, MN, MT, NE, NH, NJ, NY, ND, OH, OK, OR, PR, RI, SC, SD, TN, TX, UT, VT, VA, WA, WI, WY
- BPO (Broker Price Opinion)
- iHomeValuator
- Clear Capital Flex Appraisal
- iQuant Ext Appraisal Report
- Clear Capital CDA or like product
- FNMA Collateral Underwriter/FHLMC Loan Collateral Advisor Review with a score of 2.5 or less (must include a copy of the Submission Summary Report)
- Desk Review (must contain a value and comparative sales data to support the valuation result)
- Field Review
- Second Full Appraisal (appraisals must be completed by different, independent appraisers and the lower of the two appraised values used to determine value)

The following transactions require a 2nd full appraisal:

- Loan amounts > \$2,000,000
- Flip transactions (see [Flip Transactions](#) for complete requirements)

Existing seller policies should continue to be followed for guidance on ordering discretionary appraisal review products if there are concerns with the original appraisal report. CW Lending reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

11.7.6 APPRAISAL REVIEW TOLERANCE

A 10% tolerance is permitted for all secondary review products. If the review product does not provide a value, an additional review product of a higher-level must be ordered.

If the review product value is more than 10% below the appraised value, the lower of the two values must be used. If the tolerance is exceeded, the seller may choose to order an additional review product of a higher-level review. The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the review product value is higher than the original appraised value, the original appraisal value should be used.

If two appraisals are required, the lower of the two values or the purchase price must be used.

11.8 PROPERTY CONSIDERATIONS

11.8.1 ACCESSORY DWELLING UNITS

Properties with an accessory unit (ADU) are acceptable if all of the following are met:

- Property is typical, readily acceptable, and common in the subject's market area
- Property must conform to all zoning laws and/or regulations
- Appraisal contains 1 comparable with similar additional accessory unit
- Accessory unit is substantially smaller than the primary dwelling
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property

Rental income received from the ADU may be used for qualifying if zoning permits an accessory unit (current or grandfathered). Use of rental income is allowed, subject to the following:

- Appraisal report reflects the accessory dwelling unit is legal.
- Appraiser to confirm ADU is typical to the area with at least one comparable with an ADU.
- Maximum one ADU per property.
- The market rent for the accessory unit is documented on FNMA Form 1007.
- Copy of the current lease and 2 months proof of current receipt are provided.
- See [8.7.23 Rental Income](#) for additional guidance on rental income calculation

Note: Rental income from an ADU may not be used on the Community Equity Edge Program for qualifying purposes.

11.8.2 DAMPNESS

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

11.8.3 DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

- Age Restricted Communities

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property is common and typical for the market area
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default

11.8.4 DEFERRED MAINTENANCE

Property must be in average or better condition. Properties in C5 or C6 condition are not acceptable. Deferred maintenance is allowed provided the neglected item is not structural in nature (as noted by the appraiser). Deferred items may be left "as is" if the aggregate cost to cure the deficiency does not exceed \$2,000 or impact the safety or habitability of the property.

11.8.5 DISASTER AREAS

Sellers are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks.

Adverse events that receive a formal disaster declaration issued by local, state, or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

Damage to the subject property must meet requirements in 11.8.4 Deferred Maintenance.

11.8.5.1 PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
- Exterior inspection must certify the condition of the subject property and identify any impact to habitability or marketability
 - Inspection report must include photographs of the front, street view, and any damage to subject property
 - Inspection report and evidence of inspector licensing must be retained in loan file

If the appraisal was complete at the time of the disaster but 'subject to completion' or 'subject to repairs', an Appraisal Update and/or Completion Report (FNMA Form 1004D) is required in addition to the inspections listed above.

11.8.5.2 PROPERTY APPRAISED AFTER DISASTER INCIDENT

When the appraisal effective date is after the disaster incident, no additional documentation is required.

11.8.5.3 DISASTER INCIDENT OCCURS AFTER CLOSING OR PRIOR TO FUNDING OR PURCHASE

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- Appraisal Update and/or Completion Report (FNMA Form 1004D)

11.8.5.4 TIME PERIOD

Guidelines for disaster areas should be followed for 60 days from the incident period ending date or the date the adverse event occurred, whichever is later.

11.8.5.5 VERBAL VERIFICATION OF EMPLOYMENT RE-VERIFICATION

If a disaster event occurs after the Verbal Verification of Employment (VVOE) has been completed, an update must be obtained to ensure the borrower is still employed and that they are continuing to receive the same amount of income.

11.8.6 ELECTRICAL SYSTEMS

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

11.8.7 ENVIRONMENTAL HAZARDS

The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required in order to make final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

11.8.8 ESCROWS FOR WORK COMPLETION

Not allowed

11.8.9 FLOOD ZONE

The appraisal should indicate if the property is located in a flood zone. Refer to [12.3 Flood Insurance](#) for additional information on flood certifications and flood insurance.

11.8.10 FOUNDATION SETTLEMENT

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

11.8.11 HEATING SYSTEMS

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- the heat source is typical for the area
- the heat source is permanently attached
- the heat source is adequate for the dwelling
- the heat source is externally vented

11.8.12 LAND VALUE AND ACREAGE

Maximum acreage permitted is 15 acres (primary and 2nd homes). Acreage and land value must be typical and common for the subject's market.

Investment property transactions are limited to 5 acres. The following requirements apply:

- Property must be located in a market where rental properties are prevalent. Locations may include but are not limited to mountain towns, beach communities, waterfront properties, or other tourist/recreational destinations.
- Appraisal must provide two additional rental comparables to demonstrate market acceptance.
- Property may be deemed rural by appraiser. Must meet all other requirements in [11.8.25 Rural Properties](#).
- See appropriate CW Lending matrix for LTV restrictions.

Special consideration should be taken for properties with land values that exceed 35% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area.

11.8.13 LAVA ZONES

CW Lending allows mortgage loans secured by properties that are located within lava zones 3 through 9 in the state of Hawaii. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website: <https://www.usgs.gov/observatories/hvo>

11.8.14 LEASEHOLD APPRAISAL REQUIREMENTS

A mortgage that is secured by a leasehold estate or is subject to the payment of “ground rent” gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.

When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. See also [11.8.14.3 Community Land Trust Appraisal Requirements](#).

11.8.14.1 APPRAISAL REQUIREMENTS FOR LEASEHOLD INTERESTS

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

11.8.14.2 COMPARABLE REQUIREMENTS FOR LEASEHOLD INTERESTS

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.

11.8.14.3 COMMUNITY LAND TRUST APPRAISAL REQUIREMENTS

11.8.14.3.1 Appraiser Qualifications for Properties in a Community Land Trust

The appraiser must be knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Policies and procedures should be established to ensure that qualified individuals are being selected in accordance with the Appraiser Independence Requirements.

11.8.14.3.2 Appraisal Requirements for Properties in a Community Land Trust

The appraisal requirements for community land trust properties are as follows:

- i. The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- ii. The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property.
- iii. The lender and the borrower must execute the Community Land Trust Ground Lease Rider (FNMA Form 2100) to remove such restrictions from the community land trust's ground lease.
- iv. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when a property is disposed of through foreclosure.

- v. The appraiser must use a three-step process to develop an opinion of value (when this appraisal technique is used, there is no need to document the actual land value of the security property).
 - 1. The appraiser must determine:
 - a. Step 1: the fee simple value of the property by using the sales comparison analysis approach to value,
 - b. Step 2: the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
 - c. Step 3: the leasehold value by reducing the fee simple value by the lease fee value
 - 2. On the actual appraisal report form, the appraiser must:
 - a. indicate “leasehold” as the property rights appraised,
 - b. provide the applicable ground rent paid to the community land trust,
 - c. show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
 - d. report the “leasehold value” as the indicated value conclusion, and
 - e. check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

11.8.14.3.3 Comparable Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which the appraisal of the subject property must be based.

11.8.14.3.4 Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

11.8.14.3.5 Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property. For example, assume that the annual ground rent from the community land trust’s ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- vi. $\$300 \text{ annual rent} / 5.75\% \text{ capitalization rate} = \$5,217.39$ (rounded to \$5,200)
- vii. $\$100,000 \text{ fee simple value} - \$5,200 \text{ leased fee value} = \$94,800$ (leasehold value)

11.8.14.3.6 Addendum to the Appraisal Report

Because appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

The addendum must also include the following statement: “This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”

11.8.15 LOG HOMES

Log homes are eligible for financing as a primary or second home at a maximum LTV of 80%. The appraisal should provide a reliable opinion of market value supported by at least 2 similar log home comparables.

11.8.16 MODULAR HOMES

Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 80%. Modular homes must meet all of the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and
- Must conform to all local building codes in the jurisdiction in which they are permanently located.

11.8.17 MULTIPLE DWELLINGS ON ONE LOT

Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. See also [11.8.1 Accessory Dwelling Units](#).

11.8.18 MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

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

11.8.19 NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable.
- Property taxes are calculated at 1.5% of the sales price for qualification. 1.25% should be used for properties located in CA.

11.8.19.1 POSTPONED IMPROVEMENTS

Loans may be delivered before postponed items are complete. The postponed improvements must be completed within 120 days of the date of the note. Acceptable postponed items include items that:

- are part of the sales contract (third-party contracts are not permissible);
- are postponed for a valid reason, such as inclement weather or a shortage of materials; and
- do not affect the ability to obtain an occupancy permit.

The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property. Completion must be confirmed using Appraisal Update and/or Completion Report (Form 1004D).

11.8.19.2 COMPLETION ESCROW

Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. If the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, funds in the escrow only need to equal the full amount of the contract price.

- Lenders must ensure the escrow account is a custodial account.
- Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
- The completion escrow may not adversely affect the title insurance.
- After a satisfactory Form 1004D is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.
- Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of the lien.

11.8.20 PEST INFESTATION

If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

11.8.21 PLUMBING

A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

11.8.22 PRIVATE ROADS

Properties on private roads are acceptable subject to the following:

- The title company must insure access to the subject property from a public street; and
- A legally enforceable agreement or covenant for maintenance of the street is required.
- The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
- If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Any maintenance costs are to be included in the borrower's housing payment (PITIA).

11.8.23 PUD (PLANNED UNIT DEVELOPMENT)

A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable
- The payment of assessments related to the unit must be mandatory
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners
- The subject unit must not be part of a condo or co-op project

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

11.8.24 REPAIRS

The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also [11.8.4 Deferred Maintenance](#).

11.8.25 RURAL PROPERTIES

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up
- Area around the subject is zoned agricultural
- Photographs of the subject show a dirt road
- Comparables are more than 5 miles away from the subject
- Subject is located in a community with a population of less than 25,000
- Distance to schools and/or amenities are greater than 25 miles
- Subject property and/or comparables have lot sizes greater than 10 acres
- Subject property and/or comparables have outbuilding or large storage sheds
- **Appraiser or underwriter reconciles property as rural.**

Rural properties must comply with all of the following criteria:

- Maximum acreage is **10 acres**.
- **Rural property maximum LTV for purchase 75% and max of 70% for refinance.**
- Acreage includes road frontage and subject property.
- Residential use only. Agricultural use is not permitted.
- Properties that are zoned agricultural or commercial are not eligible.
- Property may not provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and similar to surrounding properties.
- Property cannot be subject to idle acreage tax benefit or other tax incentive program.
- Present use as per the appraisal must be the "highest and best use" for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.
- See appropriate CW Lending matrix for LTV restrictions. See also [14.9.4 Rural Properties and Acreage](#) for Community Equity Edge requirements.

11.8.26 SEPTIC SYSTEM/SEWAGE DISPOSAL SYSTEM

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating:

- Sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property.

For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year old, the certification should be no more than 120 days old on the date of closing.

11.8.27 SOLAR PANELS

Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
 - provide delivery of a specific amount of energy at a fixed payment during a set period, and
 - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The lease or power purchase agreement must indicate that:
 - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);
 - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the

panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and

- in the event of foreclosure, the lender or assignee has the discretion to:
 - terminate the agreement and require third-party owner to remove the equipment;
 - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

11.8.28 UNCONVENTIONAL FLOOR PLANS

Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

11.8.29 WATER SUPPLY

Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties can be no more than 60 days old on the date of closing. If new construction, the report may be 1-year old as of the date of closing.

11.8.30 ZONING AND LAND-USE REGULATIONS

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt "as is" in the event of partial or total destruction.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser should note any adverse effect that a non-conforming use has on the value and marketability of the subject property. Residential properties that are zoned agricultural or commercial are not eligible.

Special consideration must be given to properties that are subject to other types of land use regulations,

such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

11.9 CONDOMINIUMS

A condominium is a form of ownership in which the interior space is individually owned, and the balance of the property (including land and building) is owned collectively with the other unit owners.

11.9.1 DEFINITIONS OF ESTABLISHED AND NEW CONDOMINIUMS

Specific eligibility criteria are dependent upon whether the condo project reviewed classified as established or new.

Established condominium projects meet the following criteria:

- At least 90% of the total units in the project have been conveyed to the unit purchasers
- Project is 100% complete, including all units and common elements
- Project is not subject to additional phasing or annexation
- Control of the HOA has been turned over to the unit owners

New condominium projects meet the following criteria:

- Fewer than 90% of the total units in the project have been conveyed to the unit purchasers
- The project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo
- The project is newly converted
- The project is subject to additional phasing or annexation

11.9.2 GENERAL CONDOMINIUM REQUIREMENTS

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 600 square feet of living space.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.

- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence. The solution must be deemed acceptable by CW Lending.
- Projects with pending or threatened litigation are typically ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- All programs are limited to a maximum number of units purchased by CW Lending within one project of 20% or 20 loans, whichever is less.

11.9.3 CONDOMINIUM PROJECT REVIEWS

A valid project review is required for all condominium transactions, along with a completed CW Lending Condominium Project Questionnaire (or equivalent form). The Condominium Project Questionnaire may not be greater than 120 days old at the time of closing.

The project review methods below should be utilized to determine the acceptability of a condominium project:

11.9.3.1 PERS (PROJECT ELIGIBILITY REVIEW SERVICE)

PERS project approvals: <https://www.fanniemae.com/singlefamily/project-eligibility>

Projects with Fannie Mae PERS approvals are acceptable and can be found on the Fannie Mae website. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project. A PERS approval is valid for 18 months from the date of issue and must be valid as of the note date.

New projects are acceptable only with a PERS approval. New projects without a PERS approval are subject to non-warrantable condominium requirements. See [11.9.4 Non-Warrantable Condominiums](#).

11.9.3.2 FHA APPROVED CONDOMINIUMS

FHA condo approvals: <https://entp.hud.gov/idapp/html/condlook.cfm>

Projects with FHA condo approvals are acceptable and can be verified on the HUD website. Projects must also meet the General Condominium Requirements and may not be an Ineligible Project. An FHA condo approval must be valid as of the date of the note.

11.9.3.3 CONDOMINIUM PROJECT QUESTIONNAIRE REVIEW

For all established condominium projects without valid PERS or FHA approvals, or for projects that do not meet all the requirements of the various project review methods, a Condominium Project Questionnaire Review is required. The completed CW Lending Condominium Project Questionnaire (or equivalent form) must reflect compliance with the following requirements:

- Project must meet the definition of an established condo.
- For investment property transactions only, at least 50% of the total units in the project must be conveyed to purchasers as primary or second homes.
- No more than 15% of the total units in a project may be 60 days or more past due on their HOA dues.
- No single entity, the same individual, investor group, partnership, or corporation may own more than 20% of the total units in the project. For projects with 1-4 total units, single entity ownership may not exceed 1 unit. For 5–20-unit projects, single entity ownership may not exceed 2 units.
- No more than 35% of the total square footage of the project may be used for commercial purposes.
- Mortgagee may not be responsible for more than the greater of 6 months or the maximum amount permitted under applicable state law of delinquent HOA dues. For condos in Florida, the first mortgagee's liability for dues assessed prior to its acquisition of title is limited to the lesser of 12 months' assessments or 1% of the original mortgage debt.
- All facilities related to the project must be owned by the unit owners or the HOA cannot be subject to a lease between the unit owners or HOA and another party.

11.9.4 NON-WARRANTABLE CONDOMINIUMS

Non-warrantable condominiums are allowed. A completed CW Lending Condominium Project Questionnaire is required. See the applicable CW Lending matrix for specific LTV restrictions.

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	CONSIDERATIONS
COMMERCIAL SPACE	Commercial space in project up to 50%.
COMPLETION STATUS	The project, or the subject's legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract. If the LTV is $\leq 80\%$ and credit score is ≥ 680 , a minimum of 30% presale is allowed.
CONDOTELS	Vacation rental projects will be considered on a case-by-case basis. See 11.9.5 Non-Warrantable Vacation Rental Projects for requirements. True Condotels with onsite reservation desks are prohibited.
DELINQUENT HOA DUES	No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 100%.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
LITIGATION	Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not structural in nature, do not affect the marketability of the units and: - Potential damages do not exceed 25% of the HOA reserves, OR - Documentation must be provided by the insurance carrier or the attorney representing the insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance policy is sufficient to cover the litigation.
MASTER CONDO INSURANCE POLICY DEDUCTIBLE	Master condo insurance policy deductible up to 10%.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 30%.

11.9.5 NON-WARRANTABLE VACATION RENTAL PROJECTS

Vacation rental projects will be considered as a non-warrantable condominium project on a case-by-case basis. The following requirements apply:

- Minimum square footage for unit is 600 square feet.
- Unit must contain a full-size kitchen including a minimum of a sink, refrigerator, stove, and dishwasher.
- Bedroom(s) are separate from the main living area.
- Project may include a welcome desk, concierge service, daily cleaning services, and allow rentals of units on a daily or short-term basis.

Any project with one or more of the following characteristics is ineligible:

- Projects marketed, operated, or managed as a hotel, motel, or similar hospitality entity.
- Project has a legal or common name that contains hotel or motel.
- Project is a conversion of a hotel.
- Project is subject to rental-pooling.
- Project allows fractional ownership.
- Project is primarily transient in nature.

11.9.6 CONDOMINIUM CONVERSIONS

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past 3 years are not allowed.

11.9.7 SITE CONDOMINIUMS

Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Condominium Project Questionnaire is not required.

Appraisals for site condos may be documented on either FNMA Form 1004 or FNMA Form 1073. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

11.9.8 INELIGIBLE PROJECTS

- Projects comprised of manufactured homes
- Projects with units used for 'live-work'
- Projects managed and operated as a hotel or motel

- Projects containing the word hotel or motel in the name
- Projects that restrict the owner’s ability to occupy the unit
- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Projects with non-incidenta! business operations owned or operated by the homeowners’ association (such as a restaurant, spa, health club, etc.)
- Common interest apartments
- Fractional ownership projects
- Timeshare or segmented ownership projects
- Continuing Care Retirement Communities or Life Care Facilities
- Multi-unit dwelling condos that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her owned units evidenced by a single deed and financed by a single mortgage

12. PROPERTY INSURANCE

12.1 HAZARD INSURANCE

12.1.1 MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Hazard insurance coverage should be in the amount corresponding to:

- 100% of the insurable value of improvements, as established by the property insurer (Replacement Cost Estimator or equivalent); or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be

obtained; or

- 100% Replacement Cost Coverage as stated on the policy declaration page; or
- Total dwelling coverage equal to the final loan amount.

If the policy does not have 100% replacement cost or a replacement cost estimate is not provided, a processor’s certification from the seller verifying the insurer’s replacement cost estimate is acceptable. The certification must include the insurance company’s complete information, subject property details, confirm the replacement cost amount determined by the insurer, and be signed and dated by the processor.

12.1.2 DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

The following tables describes how to calculate the amount of required hazard insurance coverage when the policy does not explicitly guarantee 100% replacement cost coverage:

DETERMINING HAZARD COVERAGE			
STEP	DESCRIPTION		
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.		
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.		
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.		
2	Calculate 80% of the insurable value of the improvements.		
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.		
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.		
EXAMPLES			
CATEGORY	PROPERTY A	PROPERTY B	PROPERTY C
INSURABLE VALUE	\$90,000	\$100,000	\$100,000
UNPAID BALANCE	\$95,000	\$ 90,000	\$ 75,000
80% INSURABLE VALUE	—	\$ 80,000	\$ 80,000
REQUIRED COVERAGE	\$90,000	\$ 90,000	\$ 80,000
CALCULATION METHOD	Step 1A	Step 2A	Step 2B

12.1.3 DEDUCTIBLE AMOUNT

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

12.1.4 EVIDENCE OF HAZARD INSURANCE

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by agent

12.1.5 OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable as long as any part of the coverage that exceeds the required coverage is not obligated for renewal.

12.1.6 RATING REQUIREMENTS

The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company, Inc. must have:
 - a “B” or better Financial Strength Rating in Best’s Insurance Reports, or
 - an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in Best’s Insurance Reports Non-US Edition
- Carriers rated by Demotech, Inc. must have an “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings
- Carriers rated by Kroll’s Bond Rating Agency must have a “BBB” or better rating in Kroll Bond Rating Agency’s Insurance Financial Strength Rating (IRSR)
- Carriers rated by Standard and Poor’s must have a “BBB” or better Insurer Financial Strength Rating in the Standard and Poor’s Ratings Direct Insurance Service

The following types of property insurance policies are acceptable if they are the only coverage the borrower can obtain:

- policies underwritten by a state’s Fair Access to Insurance Requirements (FAIR) plan; and
- policies obtained through state or territory insurance plans, such as the Hawaii Property Insurance Association (HPIA), Florida’s Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools.

12.2 CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

12.2.1 MINIMUM HAZARD INSURANCE COVERAGE

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost – the insurer agrees to pay more than the property’s insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property’s insurable replacement cost.

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects. The

insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, a policy that includes the “broad form” covered causes of loss is acceptable.

PUD Requirements: Individual insurance policies are required for each unit mortgage in the PUD project. If the project’s legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable to satisfy insurance requirements for the units.

When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), verification of master property insurance coverage on PUD common elements is not required.

Condo Requirements: The entire condo project insurance policy must be reviewed to ensure the HOA maintains a master or blanket type of insurance policy, with premiums being paid as a common expense.

If the unit interior improvements are not included under the terms of the condominium policy, the borrower is required to have a HO-6 hazard policy (“wall-in coverage”), which is sufficient to repair the condo unit to its condition prior to a loss claim event.

The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project’s coverage.

12.2.2 DEDUCTIBLE AMOUNT

For policies covering the common elements in a PUD project and for policies covering condo projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit. If, however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

If the deductible exceeds 5% on a master condo policy, see [11.9.4 Non-Warrantable Condominiums](#) for additional considerations.

12.2.3 GENERAL LIABILITY COVERAGE

Project liability insurance requirements are as follows:

- The homeowners’ association must maintain a commercial general liability insurance policy for condo projects or Type F PUD projects, including all common areas and elements, public ways, and

any other areas that are under its supervision.

- The insurance should cover commercial spaces that are owned by the homeowners' association, even if they are leased to others. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.
- The amount of liability coverage should be at least \$1,000,000 for bodily injury and property damage for any single occurrence.
- The policy should provide for at least ten days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

12.2.4 FIDELITY BOND COVERAGE

Fidelity bond coverage is required for condominium projects over 20 units (or per state requirements). The insurance coverage must be at least equal to the greater of 3 months HOA dues or reserves or minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

12.3 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

Escrow accounts must be established for flood insurance when the subject property is determined to be in a flood zone. Escrow waiver for flood insurance is not permitted under any CW Lending program.

12.3.1 FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

12.3.2 MINIMUM FLOOD INSURANCE COVERAGE

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and

individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

12.3.3 PROJECT FLOOD INSURANCE REQUIREMENTS

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

12.3.4 DEDUCTIBLE AMOUNT

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condo project is \$25,000.

12.3.5 EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If final evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage

- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent

13. TITLE INSURANCE

13.1 TITLE POLICY REQUIREMENTS

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements. Evidence of errors and omissions (E&O) insurance covering the title company, or a closing protection letter (CPL), is also required.

13.1.1 BORROWER INFORMATION

All borrower names must be indicated on the title commitment. If the borrower’s marital status appears to be different than on 1003, the discrepancy must be addressed. The property seller’s name must be cross-referenced to the purchase agreement and valuation chain of title.

13.1.2 COVERAGE AMOUNT

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

13.1.3 INSURED NAME

Title policy must the seller as its name appears in the security instrument. It must also include the language “its successors and assigns as their interest may appear.”

13.1.4 AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 120 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

13.1.5 VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See [4.13 Vesting and Ownership](#).

13.1.6 GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence

13.1.7 TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae/Freddie Mac

13.1.8 TITLE POLICY UNDERWRITER

A title insurer must be:

- duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as
 - an acceptable rating from a rating agency,
 - financial strength of the title insurer,
 - adequate reserves, or
 - record related to satisfactory title claim resolution.

Note: Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa

13.2 TITLE COMMITMENT REVIEW

13.2.1 CHAIN OF TITLE

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

13.2.2 TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements; the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

13.2.3 SURVEY REQUIREMENTS

If the title company requires a survey or plat map, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

13.3 SERVICING

All loans are to be serviced by a third-party servicer approved by CW Lending.

Borrowers are required to establish initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law or an escrow waiver has been elected (non-HPML loans). One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments.

Escrow accounts must be established for flood insurance when the subject property is determined to be in a flood zone. Escrow waiver for flood insurance is not permitted under any CW Lending program.

14. COMMUNITY EQUITY EDGE PROGRAM

14.1 GENERAL PROGRAM INFORMATION

14.1.1 COMMUNITY EQUITY EDGE PROGRAM

The Community Equity Edge Program provides a secondary financing option in the form of a standalone, closed end second lien. Section 14 outlines requirements specific to the Community Equity Edge Program. See Sections 1-13 of these guidelines for requirements not specifically addressed in this section.

For investment property transactions under Community Equity Edge, see the CW Lending Business Purpose Lending Guidelines.

14.1.2 DOCUMENTATION

Documentation types include:

- Full Documentation: W-2s or tax returns
- Alternative Income Documentation: Personal Bank Statements, Business Bank Statements

See the applicable Community Equity Edge Matrix for complete program requirements.

14.1.3 PRODUCTS

See the applicable CW Lending Community Equity Edge Matrix for available products.

14.1.4 LOAN AMOUNTS AND LOAN-TO-VALUES

See the applicable CW Lending Community Equity Edge Matrix for minimum/maximum loan amounts, CLTVs, and other requirements

14.1.5 STATE RESTRICTIONS

See the applicable CW Lending Community Equity Edge Matrix for state restrictions.

14.1.6 AGE OF DOCUMENTATION

Unless otherwise noted, all loan documentation must be dated within 120 days of closing.

14.1.7 LOAN AGE

The period between the note date and the purchaser's funding date cannot exceed 60 days.

14.1.8 PREPAYMENT PENALTIES, POINTS, AND FEES

Prepayment penalties are not permitted on Community Equity Edge or Community Equity Edge Elite transactions. Total points, fees, and APR may not exceed current state and federal high-cost thresholds.

14.1.9 EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Loans with exception requests should exhibit strong compensating factors. All exception requests must be submitted by the seller in writing to CW Lending on the CW Lending Exception Request Form along with any supporting documentation.

CW Lending's decision to allow or deny any exception request relates only to whether CW Lending will purchase a loan. The decision does not bind a seller with respect to the underlying decision to extend credit.

CW Lending reserves the right to allow guideline variances when accompanied by a compensating factor(s).

14.2 TRANSACTIONS

14.2.1 OCCUPANCY

The Community Equity Edge Program allows for rate/term and cash-out refinances of primary residences, second homes, and investment properties. For requirements for Community Equity Edge investment property transactions, see the CW Lending Business Purpose Lending Guidelines.

14.2.2 BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to. Sellers are to complete the CW Lending Benefit for Borrower Worksheet to ensure compliance with the CW Lending benefit to borrower policy. Files must contain documentation supporting the acceptable benefit.

Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage.

A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Seller must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Seller must take special care to ensure a net tangible benefit to the borrower

I 4.2.3 DETERMINING LOAN-TO-VALUE

No ownership seasoning is required for a primary residence. If < 6 months seasoning, a 10% CLTV reduction will apply.

6 months ownership seasoning is required for second homes. A minimum of 6 months must have elapsed since the most recent mortgage transaction for second homes (either the original purchase transaction or subsequent refinance).

The appraised value may be used to determine loan-to-value as established by the required appraisal product in [I 4.9.2 Appraisal Report Requirements](#). Purchase note date to note date is used to calculate the 6 months.

I 4.2.4 PROPERTIES LISTED FOR SALE

To be eligible for the Community Equity Edge Program, the subject property must be taken off the market \geq 6 months from application date.

I 4.2.5 RATE/TERM REFINANCE

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing second mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
 - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
 - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than \$2,000 in total draws over the past 12 months

On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or \$2,000.

I 4.2.6 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing second mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [I 4.2.5 Rate/Term Refinance](#)
- The amount of any non-mortgage related debt paid off through closing
- Additional cash in hand reflected on the settlement statement

A signed Business Purpose & Occupancy Affidavit is required on all investment property cash-out transactions. Net proceeds may only be utilized for business purposes as prescribed on the affidavit.

I 4.2.7 TEXAS HOME EQUITY LOANS

Texas Home Equity loans are allowed under the Community Equity Edge Program on primary residences only. All borrowers on the loan must be in title and occupy the subject property as their primary residence.

All Texas Home Equity loans must comply with the more restrictive of the CW Lending Eligibility Guidelines or [3.6 Texas Home Equity Loans](#).

I 4.3 BORROWERS

A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note.

I 4.3.1 CUSTOMER IDENTIFICATION PROGRAM (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all borrowers. Social security numbers can be validated with a copy of the social security card, an executed SSA-89 form, or through fraud report verification. Sellers are to follow the published CIP procedures for each borrower to ensure the true identity of all borrowers has been documented.

I 4.3.2 FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the seller.

If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller's underwriting staff or operations management personnel.

In addition to the fraud and background check requirements, CW Lending will upload, as a matter of file documentation, any unsuccessful fraud report return if the background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

14.3.3 U.S. CITIZENS

U.S. citizens are eligible for financing under Community Equity Edge.

14.3.4 PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS Form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an un-expired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

14.3.5 NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for the Community Equity Edge Program.

14.3.5.1 VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- E-1, E-2, E-3
- G-1 through G-5
- H-1B & H-1C, H-2 through H-4
- L-1B, L-2
- NATO 1 through 6
- O-1
- R-1
- TN-1 & 2 (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 Form (Notice of Action) with valid extension dates and an I-94 Form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>.

Citizens of Venezuela are ineligible for CW Lending programs.

14.3.5.2 CREDIT REQUIREMENTS

A U.S. credit report is required for each borrower on the loan using a valid Social Security number. A 12-month housing history is also required. See [14.4 Credit Analysis](#) for complete credit requirements.

14.3.5.3 ASSETS

All funds required for down payment and closing costs on Non-Permanent Resident Alien transactions must be seasoned for 30 days.

14.3.6 VESTING AND OWNERSHIP

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust

Leasehold estates and land contract/contract for deed transactions are not permitted under Community Equity Edge.

14.3.6.1 INTER VIVOS REVOCABLE TRUST VESTING

See [4.13.1.1 Inter Vivos Revocable Trust Vesting](#) for complete requirements.

14.3.7 NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are not allowed.

14.3.8 MULTIPLE FINANCED PROPERTIES AND CW LENDING EXPOSURE

There is no limit on the number of other properties borrowers may currently have financed.

CW Lending exposure may not exceed \$10M aggregate with a maximum of 10 loans for each individual borrower. Exceptions to this policy will be reviewed on a case-by-case basis.

14.3.9 INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Non-occupant co-borrowers
- Co-signer(s)
- Foreign Nationals
- ITIN Borrowers
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- LLCs, partnerships, or corporations (primary and second home transactions).
- Trusts (certain trusts may qualify for ownership vesting only)
- Land Trusts
- Borrowers less than 18 years old

14.4 CREDIT ANALYSIS

14.4.1 CREDIT REPORT

A credit report is required for every borrower. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) is required for all borrowers on the loan.

Either a three-bureau merged report, or a Residential Mortgage Credit Report (RMCR), is required. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the individual has resided in the last 2 years.

14.4.1.1 AGE OF CREDIT REPORT/CREDIT DOCUMENTATION

All credit documentation, including the credit report, may not be more than 120 days old at the time of closing.

14.4.1.2 FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved prior to submitting the loan to underwriting. The actions must be reasonable and compliant with applicable laws. An underwriting decision cannot be made without full resolution of the alert.

14.4.1.3 CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

14.4.1.4 INQUIRIES

A signed letter of explanation from the borrower or creditor is required for all inquiries within the most recent 90 days to determine whether additional credit was granted as a result of the borrower's request.

14.4.1.5 GAP CREDIT REPORT

A gap credit report from at least one of three major national credit repositories (Transunion, Equifax, or Experian) is required within 10 business days of closing. In cases where a gap report is not received prior to closing, the report may be obtained within 30 days of closing.

Evidence of an active Debt Monitoring Service is acceptable in lieu of a gap credit report. The Debt Monitoring Service must be in effect within 10 days of closing. If written evidence cannot be provided, a processor cert or lender attestation stating no new debts are present is allowed.

14.4.2 CREDIT SCORE REQUIREMENTS

The primary wage earner score is used as the Representative Credit Score for each loan. Each borrower must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. Additional borrowers on the loan must have at least one valid score of 620 or greater.

To determine the Representative Credit Score for the primary wage earner, select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided.

When qualifying income amount is equal for all borrowers on the loan, the highest Representative Credit Score of all borrowers will be used.

14.4.3 TRADELINE REQUIREMENTS

COMMUNITY EQUITY EDGE MINIMUM TRADELINES			
	OCCUPANCY	TRADELINE HISTORY	MINIMUM STANDARDS
STANDARD TRADELINES	All occupancy types	3 tradelines reporting for 12+ months with activity in last 12 months or 2 tradelines reporting for 24+ months with activity in last 12 months or ***1 tradeline with 36+ months with activity in the last 12 months or Primary wage earner credit report reflects scores from all 3 bureaus and qualifying score is 700+	**0X60 for most recent 12 months
*LIMITED TRADELINES	Primary only	Does not meet minimum tradeline requirements	N/A
<p><i>*Limited Tradelines allowed on primary residence transactions only with max CLTV of 75%.</i></p> <p><i>**Applies only to tradelines being used to meet minimum number of trades.</i></p> <p><i>***Tradeline must be a mortgage account or installment account.</i></p>			

All borrowers must meet the minimum tradeline requirements under the Community Equity Edge Program. See the appropriate Community Equity Edge Matrix for complete tradeline requirements.

To qualify as a valid tradeline, the following requirements apply:

- The credit line must be reflected on the borrower's credit report.
- The account must have activity in the past 12 months and may be open or closed.
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- A 12- or 24-month housing history not reporting on credit may also be used as a tradeline.

Credit lines on which the borrower is not obligated to make payments are not acceptable for establishing a minimum history. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy, and authorized user accounts. Student loans can be counted as tradelines as long as they are in repayment and are not deferred.

I 4.4.4 MORTGAGE AND RENTAL PAYMENT VERIFICATION

Mortgage and rental payments not reflected on the original credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM). A combined total of all late mortgage and rental payments in the past 12 months must be used to determine the housing history.

If the borrower is making payments to an individual or interested party, 12 months of cancelled checks or bank statements must be obtained. A VOR/VOM is not required but may be requested for clarification.

All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.

See the applicable Community Equity Edge for max allowable housing payment lates.

I 4.4.5 ROLLING LATE PAYMENTS

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

I 4.4.6 PAST DUE ACCOUNTS

Past due consumer debts can be no more than 30 days past due at time of closing.

I 4.4.7 DELINQUENT CREDIT BELONGING TO EX-SPOUSE

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse.

14.4.8 LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, the loan is ineligible.

14.4.9 CONSUMER CREDIT COUNSELING SERVICE (CCCS)

Consumer Credit Counseling must be completed for a minimum of 48 months from closing date. See the applicable Community Equity Edge Matrix for complete program requirements.

14.4.10 COLLECTIONS AND CHARGE-OFFS

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
- Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full.

14.4.11 JUDGMENTS AND TAX LIENS

All judgments or liens affecting title must be paid as title must insure our lien position without exception. Court-ordered judgments may remain open when one of the following options is met:

- The amount is the lessor of \$5,000 per occurrence or 2% of the loan amount; or
- Judgments or liens have passed beyond the statute of limitations for that state (supporting documentation required); or
- The borrower is currently in a repayment agreement with the creditor (if the borrower is currently in a repayment plan, the following requirements apply):
 - A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
 - The maximum payment required under the plan is included in the debt-to-income ratio.

14.4.12 HOUSING EVENTS

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history

Housing Events must be seasoned for a minimum of 48 months from loan closing, and 84 months under Community Equity Edge Elite. See the Community Equity Edge Matrix and/or Community Equity Edge Elite Matrix for complete housing event requirements.

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

A mortgage modification resulting in any of the attributes listed below is subject to Housing Event seasoning guidelines:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

14.4.13 BANKRUPTCY

All bankruptcies must be discharged or dismissed for a minimum of 48 months from closing date under Community Equity Edge, and 84 months under Community Equity Edge Elite. See the applicable Community Equity Edge Matrix for complete bankruptcy requirements.

I 4.5 LIABILITIES

See [6 Liabilities](#) for complete guidelines addressing liabilities.

I 4.5.1 SENIOR LIENS

CW Lending will not permit loans in first lien position to contain any risk features that could impact the borrower's ability to repay. Terms of the subject property first lien must be obtained.

Verify the first lien P&I payment and terms with either:

- Copy of the first lien note, or
- Copy of the most recent monthly mortgage payment statement.

Note: Additional first lien documentation may be required to provide sufficient data for underwriting.

I 4.5.2 INELIGIBLE SENIOR LIENS

Ineligible Senior Lien terms include, but are not limited to:

- Loans in active forbearance or deferment
- Negative amortization
- Balloon, if the balloon payment becomes due during the amortization period of the new 2nd lien
- Reverse mortgages
- Private mortgages opened within the past 12 months
- Tax and judgment liens

I 4.6 EMPLOYMENT/INCOME ANALYSIS

Employment and Income may be documented with Full Documentation or Alternative Income Documentation. See the applicable Community Equity Edge Matrix for complete income documentation requirements.

See [8 Employment/Income Analysis](#) for any employment or income requirements not specifically addressed in this section.

Note: Asset Utilization is not allowed for determining income under the Community Equity Edge Program.

I 4.6.1 EMPLOYMENT HISTORY

Employment must be stable with at least a 2-year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

I 4.6.2 SOURCES OF INCOME

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 1-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

I 4.7 RATIOS AND QUALIFYING

I 4.7.1 RATIOS

The maximum DTI allowed for the Community Equity Edge Program is 50%.

I 4.7.2 RESIDUAL INCOME

Residual income is required for all primary and second home transactions using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} - \text{Total Monthly Obligations}$$

Residual Income of \$1,500 is required for the Community Equity Edge. An additional \$150 per dependent must also be included for all programs. The initial 1003 should reflect the number of dependents for all borrowers on the transaction.

I 4.7.3 ADJUSTABLE-RATE QUALIFYING FOR OTHER LIENS

For all subject property liens that are determined to be ARM loans, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.

14.8 ASSET ANALYSIS

No cash to close and/or reserves are required for the CW Lending Community Equity Edge program

14.9 PROPERTY

See [11 Property](#) in Community Non-QM Guidelines for any property guidelines not specifically addressed in this section.

14.9.1 ELIGIBLE PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties	Yes
Site Condominium	**Yes
*Condominium (low-rise and high-rise)	Yes
*Non-Warrantable Condominiums	Yes
Rural Properties	††Yes
Age Restricted Communities	No
Agricultural or Commercial Zoned	No
Assisted Living/Continuing Care Facilities	No
Boarding Houses	No
Condotels or Condo Hotels	No
Co-operative Units	No
Farms or Hobby Farms	No
Land Contracts/Contract for Deed	No
Land Trusts	No
Leasehold Property	No
Log Homes	No
Manufactured Homes	No
Mixed-Use Properties	No
Modular Homes	No
Properties Subject to Rent Control Regulations	No
Row Homes	No
Shared Housing and/or Student Housing	No
Single Room Occupancy (SRO)	No
Unique Properties (Earth Homes, Berms, Dome Homes, Barndominiums, Shouses, Geodomes, etc.)	No
<p><i>*See appropriate Community Equity Edge Matrix for program requirements and LTV/CLTV restrictions.</i></p> <p><i>††Rural Properties are not allowed under Community Equity Edge Elite.</i></p>	

14.9.2 APPRAISAL REPORT REQUIREMENTS

For loan amounts ≤ \$400,000, one of the following appraisal options is required:

- AVM from approved provider with acceptable forecast standard deviation (FSD) score and confidence rating:
 - Approved providers include:
 - ClearCapital
 - Collateral Analytics
 - CoreLogic
 - HouseCanary
 - Homegenius
 - Quantarium, and
 - Veros
 - Acceptable confidence ratings for Clear Capital only are ≥ 87% and FSD scores are ≤ 0.13.
 - Acceptable confidence ratings for all other providers are ≥ 90% and FSD scores are ≤ 0.10.
 - AVMs must include property condition report or equivalent report.
 - Note: If the AVM does not **meet** the confidence rating **and FSD requirements above**, a **Clear Capital Residential Evaluation is acceptable for the following states**:
 - **AL, AK, AZ, CA, CO, FL, GA, IL, IN, IA, KY, ME, MD, MA, MI, MO, MN, MT, NE, NH, NJ, NY, ND, OH, OK, OR, PR, RI, SC, SD, TN, TX, UT, VT, VA, WA, WI, WY**
- **iHomeValuator**
- **Clear Capital Flex Appraisal**
- iQuant Ext Appraisal Report
- Exterior-Only Inspection Residential Appraisal Report (FNMA Form 2055 or 1075)
- Full Interior Appraisal (FNMA Form 1004, 1073, or 1025)

A Full Interior Appraisal is required for:

- Loan amounts > \$400,000
- Higher-Price Mortgage (HPML) loans

14.9.3 AGE OF APPRAISAL AND APPRAISAL UPDATES

Appraisals are valid for 120 days and are not eligible for appraisal updates.

I 4.9.4 RURAL PROPERTIES AND ACREAGE

Rural properties are permitted under the Community Equity Edge Program. Rural properties are not allowed under Community Equity Edge Elite. The following parameters apply:

- Max 10 acres
- Primary residence only
- SFR and PUDs
- Max loan amount \$500,000
- Max 70% CLTV with minimum 720 FICO
- Max 60% CLTV with minimum 700 FICO
- Full appraisal required

Agricultural features are not allowed. Agricultural features include, but are not limited to, barns, stables, farmland, livestock, and/or workshops. Acreage and land value must be typical and common for the subject's market. Residential properties in areas that are zoned as either agricultural or commercial are not eligible.

Utilize the following tool to determine if a property is rural: <https://www.consumerfinance.gov/rural-or-underserved-tool/>.

See [11.8.12 Land Value and Acreage](#) for max acreage for non-rural properties.

I 4.9.5 SOLAR PANELS

The presence of solar panels or solar panel agreements are allowed with adherence to FNMA guidelines. Properties where solar panels carry a lien against the subject are not eligible for financing. See [11.8.27 Solar Panels](#) for complete requirements.

I 4.9.6 ACCESSORY DWELLING UNIT

ADU are permitted but rental income may not be considered for qualification purposes. See also [11.8.1 Accessory Dwelling Units](#) for complete requirements.

I 4.10 PROPERTY INSURANCE

I 4.10.1 HAZARD INSURANCE

Documentation of adequate hazard insurance coverage is required. When determining the acceptable coverage amount, the unpaid principal balance of all existing liens against the subject property should be used. See [12.1 Hazard Insurance](#) for complete requirements.

I 4.10.2 FLOOD INSURANCE

Sufficient flood insurance must be obtained if property is determined to be in a flood zone. Documentation of adequate flood insurance coverage is required. See also [12.3 Flood Insurance](#).

When determining the acceptable coverage amount, the unpaid principal balance of all existing liens against the subject property should be used. Sufficient flood insurance coverage is defined as the lessor of:

- The combined total of both the first lien and second lien unpaid principle balances; or
- The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling.

If existing first mortgage does not contain an escrow account for flood, see [14.10.4 Escrow Accounts](#).

14.10.3 TITLE INSURANCE

For loan amounts ≤ \$400,000, an Owner and Encumbrance Property Report is required.

For loan amounts > \$400,000, a full ALTA Residential Limited Coverage Junior Policy or full ALTA Title Policy with expanded coverage insuring the second lien is required.

See [13 Title Insurance](#) for complete requirements.

14.10.4 ESCROW ACCOUNTS

Under the Community Equity Edge Program, an escrow account must be established for flood insurance if the existing first mortgage does not contain escrows for flood insurance. Escrows for hazard insurance and taxes are not required.

15. FORMS

The most up-to-date versions of all CW Lending forms, matrices, rate sheets, and guidelines can be accessed through the CW Lending Portal.

The following forms can be found via the CW Lending Portal:

- CW Lending Exception Request Form
- CW Lending Benefit to Borrower Form
- CW Lending Loan Review Stacking Order
- CW Lending Condominium Project Questionnaire Form
- CW Lending Request for Verification of Earnings Form
- CW Lending Self-Employed Business Narrative Form (or equivalent)
- Business Purpose & Occupancy Affidavit