

# Luxury Mortgage Corp.®

## Non-Conforming Residential Mortgage Loan Simple Prime Underwriting Guidelines Version 27

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## SECTION 1: GENERAL POLICY

### Lending Policy

These underwriting guidelines ("Guidelines") define the criteria for determining the acceptability to Luxury Mortgage Corp. (LMC) of non-conforming residential mortgage loans. Non-conforming loans do not meet the eligibility standards of the Government Sponsored Enterprise ("GSEs" or "conforming") defined as Fannie Mae and/or Freddie Mac whether determined through automated or manual underwriting. These loans also do not meet the lending standards of Federal Housing Authority ("FHA") or the Department of Veterans Affairs ("VA").

These guidelines provide guidance relative to LMC will provide financing for mortgage loans secured by 1-4 family dwellings pursuant to the Consumer Financial Protection Bureau's (CFPB) Qualified Mortgage and Ability to Repay ("QM"/"ATR") requirement (the "Rule"). The general ATR requirements for non-Qualified Mortgage loans (the "General ATR Option") consist of eight minimum underwriting considerations as defined in TILA Section 129C, 12 C.F.R. Section 1026.43(c) and requirements for verifying the information used to underwrite the loan. LMC will purchase loans that comply with the General ATR Option requirements that are underwritten utilizing the standards found in Appendix Q to 12 C.F.R., Part 1026 in all cases except where otherwise noted.

LMC will not finance loans that are classified or defined as "high cost", "threshold" "covered", "predatory" or similarly designated as defined under any other applicable Federal, State, county or municipal statute, regulation or ordinance. Luxury Mortgage Corp. does not support or condone predatory lending in any form.

Luxury Mortgage Corp. is committed to originating investment quality mortgage loans that meet acceptable risk standards as in alignment with industry best standards and secondary market defined by the mortgage industry.

While preserving discipline in the underwriting process, LMC takes a common sense approach to credit policy to ensure reasonableness in the underwriting process. We recognize that not every loan falls within our Guidelines and may deserve further consideration. Each mortgage loan subject to these Guidelines is analyzed on its own merit resulting in a credit decision that meets LMC's quality standards and is in compliance with all applicable governing statutes and regulations as amended and in effect at the time the loan was made.

LMC reserves the right to update and revise the Guidelines based on pertinent changes to policies, program guidelines, federal and state laws and regulations.

### Underwriting Policy

A loan meets the LMC's underwriting quality standards if the borrower's credit and capacity to make payments and the quality of the collateral are consistent with the mortgage loan program under which the loan was underwritten and meets the General ATR Option. These Guidelines set forth the underwriting standards that apply in evaluating a borrower's willingness and capacity to repay the mortgage loan and the represented value of the subject property is expected to reflect accurately its market value. An underwriter must confirm that information provided by the applicant during the loan application process is accurate, complete, and properly documented to be able to conduct a comprehensive risk assessment of each mortgage loan application and reach a determination whether or not the loan meets the LMC's eligibility requirements.

LMC will utilize a comprehensive risk assessment approach to manually underwrite a mortgage application. Under this approach, LMC will evaluate certain key risk elements to assess the overall level of delinquency risk. LMC is responsible for: evaluating the delinquency risk of each loan; review the credit report and credit parameters; assessing the adequacy of the property as collateral for the mortgage request; fully document the assessment and the documentation on which the assessment was based; determining whether or not the loan meets the LMC's eligibility requirements.

The results of the underwriting decision must be fully documented in the loan file. Luxury Mortgage Corp.'s common sense approach to credit policy allows underwriter discretion with respect to documentation that the underwriter determines does not increase the delinquency or regulatory compliance risk of each loan.

## Eligibility

Eligibility	Item
Products	Non-conforming loans as defined above and in underwriting guidelines or product highlight
Loan Types	Fixed Rate first lien mortgage loans Adjustable Rate Mortgages first lien mortgage loans with initial fixed periods up to 10 Year.
Loan Terms	The term of a first mortgage loan may not extend more than 30 years
Lending Area	Luxury Mortgage Corp. will originate loans in states where it is licensed or exempt from licensing. Properties not located in the 50 US states or Washington D.C. are ineligible.  The following states are eligible: AR, CA, CO, CT, DC, DE, FL, GA, IL, MA, MD, ME, MI, NH, NC NJ, NM, NY (no NY subprime), OH, OR, PA, RI, SC, TN, TX (no 50(a)(4) or 50(a)(6)), VA, WA, WI  Texas Refinances: If property is subject to a homestead, borrower may not have taken cash out since property was acquired, including previous or proposed consolidation of a first and a second.
Maximum Bank United Residential Exposure Limitation	Luxury Mortgage Corp. will limit the number of residential mortgages granted to the same borrower to a maximum of three loans of any type to a maximum Total Credit Exposure of \$10,000,000, if more than 3 loans TCE \$2,000,000. Joint ownership is counted against the maximum properties financed limit. The limitation applies to the borrower's ownership and mortgage obligations on 1-4 unit properties only. This limitation only applies to loans extended by Luxury Mortgage Corp. There is a limit of 6 financed properties aside from Luxury Mortgage Corp.'s exposure to a single borrower.  This maximum number of financed properties does include properties that are held in the name of an LLC, partnership or trust which the borrower controls. If a borrower transfers a property title to their business in order to meet the limit on multiple mortgages to the same borrower, the borrower would need to provide a copy of the creditor's release of liability.
Acceptable Markets	<b>Standard Market</b> Luxury Mortgage Corp. considers all market areas to be Standard Markets.  <b>Declining Markets</b> If the subject property is located in a market area that the Appraiser indicates property values are declining or has defined the market area as a "distressed" market area, the LTV will be reduced by 5%.

## Disaster Policy

Any adverse event (including, but not limited to: fire, earthquake, landslide, hurricane, flood, tornado, thunderstorm, etc.) that may have impacted a subject property must be evaluated in terms of its effect on the subject's habitability, marketability, and value. An adverse event does not specifically require a federal or state disaster declaration. Luxury Mortgage Corp. will finance loans on properties that are located in FEMA/Federally declared disaster areas provided the requirements in this document are adhered to and documented in the loan file.

Once the federal government has declared a disaster with individual assistance, a FEMA Disaster Notification is issued. However, a disaster declaration may occur at a time significantly later than the occurrence of the adverse event. Therefore, regardless of whether there is a declared disaster, anyone with any knowledge of an adverse event must take appropriate action to ensure a subject property meets Luxury Mortgage Corp.'s requirements at the time of financing.

### Disaster Area Property Valuation Requirements

The following policy applies to properties located in Presidential/State declared disaster areas. Also, any loan funded by LMC but not yet sold may require a disaster inspection. For loans secured by properties appraised prior to the Presidential/State declaration but have not closed, the following post-disaster guidelines apply. An interior and exterior inspection preferably by the original appraiser of the subject property is required.

The inspection should provide a certification stating:

- Subject property is free from damage and is in the same condition as previously appraised.
- The marketability and value of the subject property remain the same.
- The Applicant must sign a certification of acceptable property condition such as Property Condition Certification or similar document.
- An interior valuation will be required if exterior inspection shows visible damage and/or comments from the Appraiser states there are health and safety hazards present.

## SECTION 2: REGULATORY COMPLIANCE

### Fair Lending

It is Luxury Mortgage Corp.'s policy to provide all creditworthy Applicants equal access to the capital, products, services and expertise of Luxury Mortgage Corp. and its employees without regard to race, color, sex, religion, national origin, handicap, familial status, age, marital status, sexual orientation, geographic location or any other prohibited basis as defined by law.

### Fair Housing and Equal Opportunity Acts

Luxury Mortgage Corp. believes in fair treatment of all Applicants regardless of race, color, religion, national origin, or sex. Luxury Mortgage Corp. operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act (ECOA). 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. ECOA 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 Applicant has the capacity to enter into a binding contract), receipt of public assistance, or because the Applicant has in good faith exercised any right under the Applicant Credit Protection Act.

Luxury Mortgage Corp. fully supports the letter and spirit of both of these laws and will not condone discrimination in any transaction. It is our objective to help make home ownership affordable and attainable. Our commitment to the Applicant and the housing finance industry is a responsibility we take seriously, as we work to encourage fair lending and open new markets.

Luxury Mortgage Corp. requires appraisers to report neighborhood and property conditions in factual and specific terms; to be impartial and specific in describing favorable or unfavorable factors; and to avoid the use of subjective, racial or stereotypical terms, phrases, or comments in the appraisal report. Luxury Mortgage Corp. does not designate certain areas as "acceptable" or "unacceptable". Luxury Mortgage Corp. does not "red line".

### Statutes

Luxury Mortgage Corp. will underwrite each mortgage loan in compliance with the applicable underwriting guidelines in this document and all applicable governing statutes and regulations as amended including, but not limited to, the following:

- Equal Credit Opportunity Act (ECOA/Regulation B);
- Applicant Credit Protection Act;
- Fair Credit Reporting Act (FCRA);
- Fair Housing Act;
- Truth-in-Lending Act (TIL/TILA/Regulation Z);
- Real Estate Settlement Procedures Act (RESPA/Regulation X);
- Home Mortgage Disclosure Act (HMDA/Regulation C);
- Home Ownership and Equity Protection Act (HOEPA-Section 32);
- The USA Patriot Act and Economic Sanctions as applied by the Office of Foreign Asset Control (OFAC);
- Ability to Repay / Qualified Mortgage, (QM);
- Financial Institutions Reform Recovery and Enforcement Act (FIRREA);
- Flood Disaster Protection Act;
- Community Reinvestment Act (CRA);
- Americans with Disability Act (ADA);
- Privacy of Applicant Financial Information (GLB/Gramm-Leach-Bliley/Regulation P);
- Fair and Accurate Credit Transactions Act (FACT)
- S.A.F.E Act – Federal Licensing and Registration (Regulation G) and State Licensing and Registration ("Regulation H");
- Agency, Federal, State and Municipal High-Cost and Anti-Predatory Laws (the more restrictive guideline always applies).

### Compliance Testing

All Loans must contain evidence of compliance testing using automated compliance engine such as Ellie Mae's Mavent or similar.



## SECTION 3: ELIGIBLE TRANSACTIONS

### Purchase Money Transaction

For a mortgage loan to be considered a Purchase Money Transaction, the proceeds from the mortgage loan must be used to finance the acquisition of the subject property or to pay off the outstanding balance of a land contract or contract for deed.

Proceeds from the mortgage loan may not be used to give the Applicant cash back other than an amount representing reimbursement for the Applicant's overpayment of fees and/or a legitimate pro-rated insurance premiums and real estate tax credit in locales where real estate taxes are paid in arrears, if any.

### Rate/Term Refinance Transaction

A Rate/Term Refinance Transaction is utilized to pay off an existing first mortgage plus any junior lien loans against the subject property by obtaining a new first mortgage loan secured by the same property. At least one Applicant must be a borrower on the mortgage being refinanced, unless noted below; at least one applicant on the refinance mortgage must have held title to mortgaged premises being refinanced for at least six (6) months prior to the loan's application date. If the subject property is currently listed for sale, the property must be taken off the market on or before the loan application date and the Applicants must confirm their intent to retain and occupy the subject property (as applicable). There must be a net tangible benefit as determined by LMC to the Applicant. The following conditions are acceptable in conjunction with a Rate/Term Refinance Transaction:

- Modifying the interest rate and/or term for existing mortgage loans;
- Paying off the unpaid principal balance of the existing first mortgage loan including closing costs, prepaid items and points;
- Paying off any subordinate lien(s) used to purchase the property may also be included and paid off with proceeds from the new mortgage loan;
- Paying off any subordinate lien or equity line of credit (HELOC) seasoned more than 12 months that has not had draws > \$2,000 in the past 12 months preceding the loan's application date;
- The maximum cash out cannot exceed the lesser of 2% of the balance of the new refinance mortgage loan or \$2,000;
- Buying out a co-owner pursuant to an agreement acceptable in its form to Luxury Mortgage Corp.
- If the subject property was purchased for cash, Luxury Mortgage Corp. will consider a new loan to reimburse the purchase price a Rate/Term refinance transaction if the application is made within 90 days of closing of the cash transaction. The Closing Disclosure evidencing a cash sale and evidence of the source of funds used to purchase must be documented. The value utilized for LTV calculation will be the lower of the purchase price or appraisal value;
- If the subject property was constructed for cash and completed within 6 months of the application date, the Applicant may recoup documented out of pocket expenses for acquisition and construction; the value utilized for LTV/CLTV calculation will be the new appraisal value;
- Buyout of beneficiaries subject to requirements below

### Chain of Title / Continuity of Title

For refinances, continuity of obligation must be established on the part of at least one Applicant. The Applicant must be on title for a minimum of 6 months prior to application date. If current title is vested in a company name, continuity of obligation must be established for all Applicants by providing supporting documentation that all Applicants had ownership in such company for a minimum of 12 months.

### Cash-out Refinance Transaction

If the mortgage loan proceeds exceed the payoff of existing mortgage liens by an amount greater than the lesser of \$2,000 or 2% of the new mortgage loan balance or if the transaction does not meet the rate/term criteria above it is considered a cash-out refinance and the amount greater than the payoff amount is considered cash-in hand. Luxury Mortgage Corp. limits the maximum LTV allowed for cash out refinance transactions contingent on the amount of cash-in hand taken by the Applicant. Maximum cash out allowed is \$500K. Any cash out proceeds >\$300k may be subject to LTV reductions.

### Cash-out Refinance Restrictions

Cash-out Refinance Transactions are not allowed:

- Unless noted above, on properties owned less than six months prior to the mortgage loan application date;
- On properties where there has been a cash-out refinance transaction in the 12 month period prior to the mortgage loan application date.



## Other Transaction Types

### Consolidation Extension and Modification Agreement (“CEMA”)

For purchases and refinances on properties located in New York State, Luxury Mortgage Corp. will allow the use of the NY CEMA in lieu of cancellation of the old Mortgage Note and release of lien. Purchase CEMA NOT allowed on investment properties. The NY CEMA combines into one set of rights and obligations all the promises and agreements stated in existing Notes and Mortgages secured by the Mortgaged Premises, including, if new funds are advanced to the Applicant at the time of the consolidation, a new Note and Mortgage. The result is that the Applicant has one consolidated loan obligation that is paid in accordance with the terms of the NY CEMA. When documenting a refinance Mortgage using a NY CEMA, you must use a Consolidated Note that must be executed by the Applicant. The consolidated loan terms, as stated in the NY CEMA, are restated in the Consolidated Note.

### Short Sale

Homes purchased through a short sale may be eligible for financing. LMC will diligently review purchase transactions for possible red flags that could indicate suspicious activity related to the short sale and would subsequently render the loan ineligible for purchase by Luxury Mortgage Corp.

### Short Sale Fee Documentation

The following documentation is required in the mortgage loan application file.

- Written details provided to the Applicant outlining the additional fees or payments and the additional necessary funds to complete the transaction.
- The servicer who is agreeing to the short sale must provide written details of the fees or payments and confirmation that they have the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller, and servicer) must provide their written agreement to the final details of the transaction, including the additional fees or payments. This can be accomplished by using the Request for Approval of Short Sale form or any alternative form or addendum that clearly indicates that all parties (buyer, seller and servicer) agree to the final details of the transaction, including any additional fees).
- The Closing Disclosure must include all fees and payment included in the transaction.

### Transactions with Subordinate Liens

Luxury Mortgage Corp. will purchase First Lien mortgage loans that are subject to subordinate financing up to the maximum CLTV limits as reflected on [Appendix C](#). In general, most subordinate financing types are acceptable except for those outlined below:

- Subordinate liens with negative amortization
- Subordinate liens that do not fully amortize or have balloon feature with maturity date less than 10 years from the note date of the new Luxury Mortgage Corp.

On transactions that are subject to subordinate financing, originator must obtain and provide a copy of the original Note to verify terms and its eligibility for subordination. If subordinate financing is left in place in connection with the first mortgage loan refinance transaction, Luxury Mortgage Corp., requires execution and recordation of a Subordination Agreement. Subordinate Lien to be recorded subsequent to the new First Lien and remain in second lien position.

### Arm’s Length Transactions

An “Arm’s Length Transaction” is one in which the parties are dealing from equal bargaining positions with neither party being subject to the control or dominant influence of the other. The transaction must be treated with fairness, integrity, and legality. As such, “Arm’s Length Transactions” are generally considered to establish “fair market values” for sales transactions.

### Non-Arm’s Length Transactions

A Non-Arm’s Length Transaction is one in which there is a direct personal or financial relationship amongst the parties to the transaction including, but not limited to relative; buyer; seller; broker; appraiser; realtor; closing agent; employer; or employee. Generally, the following transactions are typically considered to be “Arm’s Length” in nature even though they are between family members, such as - spousal buyout due to divorce; interest buyout of an inherited property, a gift of down payment when the source is from a family member’s equity in the sale of the subject property.

### Non-Arm’s Length Policy

If a Non-Arm’s Length Transaction is indicated, the following conditions should apply:

- The property must be owner occupied;
- For loans less than or equal to \$1,000,000 a field review must be completed.

- For loans greater than \$1,000,000 a second appraisal is required;
- The appraiser must verify the purchase price and last sale date of the subject property;
- No subordinate financing from interested party is allowed;
- Seller concessions are not allowed.

### **Interested Third Party Contributions**

Interested Third Party Contributions are the cost of items normally paid by the Applicant, but which are paid by the seller, or another interested third party to the transaction. Interested parties generally include the builder, the developer, the seller of the property, the real estate agent, etc. Examples of sales incentives include, commission paid to a realtor, a program developed by a seller or third party (e.g., a property management company, a builder, an investment group, a marketing company, etc.) to entice a buyer to purchase the property, or a finder's fee or bonus paid to a realtor or a third party.

Generally, Luxury Mortgage Corp. will not consider contributions that are from a person related to the Applicant, the Applicant's employer, a municipality, a non-profit organization as interested party contributions.

#### **Interested Third Party Contributions are classified as:**

- Sales Contributions (aka Financing Contributions),
- Sales Concessions
- Sales Abatements
- Sales Allowances

#### **Interested party contributions must be:**

- Disclosed in the sales contract,
- Documented in the Mortgage file,
- Clearly shown on the Closing Disclosure, and
- Paid to the appropriate vendor by the Title Insurance Company or Closing Attorney.

### **Sales Contributions or Financing Concessions**

Funds originating from an interested third party and paid to the appropriate vendor are acceptable when they are used to permanently reduce the interest rate on the mortgage or pay related mortgage financing costs, closing costs, required prepaids, and escrow costs. The maximum allowable Sales Concession is limited to 6% of the property's sales price for Owner occupied and Second Home properties and 2% for Investment properties. Sales Concessions greater than the allowable must be subtracted from the sales price when calculating the LTV.

Regardless of recurring or non-recurring closing costs, lender credit can be used however the maximum limit of contributions from all sources must meet above requirements.

#### **Sales Concessions**

Items that do not qualify as Sales Contributions are Sales Concessions. Examples include but are not limited to:

- Payment (either directly or in a reserve account) of Homeowners Association (HOA) fees greater than what is normally pre-paid at loan closing
- Payment of hazard insurance premiums greater than what is normally pre-paid at loan closing
- HOA fees waived by the Builder/Developer
- Vacations
- Furniture
- Automobiles
- Securities
- Other non-property related giveaways
- Short Sale Processing Fees used to reimburse the Applicant for payment of fees charged to process or negotiate a short sale (short sale negotiation fees, buyer discount fees, short sale buyer fees, etc.)

#### **Sales Allowances**

A sales allowance is a credit given by the seller to the buyer as an inducement to purchase the property.

An acceptable sales allowance must be property related, and for items permanently attached to the property such as needed repairs, upgrades, or decorations.

In order to be included in the sales price, the sales allowance items must be completed, or an escrow has been established to ensure completion. Uncompleted or non-escrowed items are deducted from the sales price. Personal property items are not acceptable.

## Transactions with Family Members

A Family Sale is a transaction where one family member sells to another family member with no real estate agent involved or a family member acting as an agent. Family member is defined as the Applicants' spouse, child, parent, or any other individual related to the Applicants by blood, adoption, or legal guardianship. These transactions carry the potential for high risk as in bailout situations (i.e., the selling party has financial problems and is unable to maintain their payments). The following are general requirements:

- Applicant must provide a written explanation stating the relationship to the seller and the reason for purchase;
- The underwriter must be satisfied the transaction makes sense and that the Applicant will occupy the property as a primary residence;
- Verification that the Applicant is not now, nor has previously been, on title to the property;
- A payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained and show no delinquencies within the past 12 months;
- Gifts of equity in the subject property are acceptable sources of down payment, the donor must provide a gift letter and the gift of equity must be reflected on the Closing Disclosure ;
- The Applicant must contribute a minimum of 10% of the sales price towards the down payment from their own funds.

## Buyout of other Beneficiaries

An Applicant may use a portion of the proceeds of the subject mortgage to buy out the interest of other beneficial owners of the subject property. His/her interest must be verified, and a buyout agreement must be fully executed. Payoffs to the beneficiaries must be a closing condition and shown on the Closing Disclosure. The following applies:

- The transaction is classified and treated as a rate/term refinance; the Applicant may only receive incidental cash back at closing.
- Allowed on primary residences only.
- A verification of mortgage on any existing financing to verify the outstanding balance must be obtained. The payment history should be disregarded on existing mortgage as not a credit consideration.

## Conflict of Interest

Certain types of conflicts include, but are not limited to:

- A broker's relative provides the Applicant with mortgage services.
- A broker's relative directly or indirectly owns or controls in any form the person or company providing mortgage services.
- One or more persons or person's relatives, is a principal or officer or performs functions as principal or officer for both the Luxury Mortgage Corp. or person or company providing mortgage services.

There are varying degrees of a Conflict of Interest. Other types of conflicts include but are not limited to the Applicant(s) employed by or principal of the following service providers:

- Mortgage company, LMC, broker
- Real estate salesperson, real estate agent
- Closing agent, title issuing agent
- Homeowner insurance company

## Acknowledgement and Approval

In all situations outlined in Conflict of Interest section, a letter from the conflicting service provider must be obtained. An example would be an approval letter from title underwriter authorizing the title issuing agent (the Applicant), to issue title insurance on the loan. This Applicant would not be allowed to perform the closing. All settlement services including executing the Closing Disclosure on behalf of the closing agent, such as disbursing the proceeds and acknowledging the Applicant's execution of closing documents, must be performed by another authorized officer of the firm.

## First Time Home Buyer

For purposes of definition, a mortgage loan is considered a first time home buyer (FTHB) application if any of the individual Applicant(s) are purchasing the subject property, and will reside in the subject property, and had no ownership interest (sole or joint) in a residential real estate property during the three-year period preceding the date of the application date. For an owner occupied or second home transactions with multiple borrowers, if any Applicant within three (3) years of the application date, have been a mortgagor, the transaction will be treated as a standard transaction. First time homebuyers are eligible for maximum financing per LTV Matrix in Program Guide

[Appendix C.](#)

FTHB living rent free is acceptable as long as all other underwriting guidelines are met. However, Applicant must provide a "living rent free" letter from housing provider and 1003 information must agree with letter.

FTHB may be eligible for maximum financing with the help of a non-occupant co-Applicant subject to the following:

- Non-occupant co-Applicant must be a relative
- The occupant borrower's Housing Ratio cannot be greater than 50%. If ratio is greater than 50%, the transaction will be treated as investment.

## Property Flipping

If a property is being transferred within six (6) months of acquisition, Luxury Mortgage Corp. may, at its discretion, require a second appraisal.

## 1031 Exchange

Luxury Mortgage Corp. will allow financing for transactions involving 1031 exchange. The Internal Revenue Code provides that a taxpayer may sell an asset (personal property or real property) and defer payment of capital gains tax if that taxpayer uses the proceeds to acquire a like-kind replacement asset. Funds are controlled by Qualified intermediary (QI) or Accommodator or Facilitator, an individual or business entity that provides the following functions/services in a 1031 exchange: (1) acquires the relinquished property from the Exchanger and causes it to be transferred to the buyer; (2) holds the exchange proceeds to avoid exchanger's actual or constructive receipt of funds; and (3) acquires the replacement property and causes it to be transferred to the exchanger. The QI/Accommodator/Facilitator cannot be the taxpayer, a related party or an agent of the taxpayers. QI or accommodator or Facilitator is sanctioned as a safe harbor by the IRS.

### Transactions involving 1031 Exchange must meet following criteria to be eligible for financing:

- Purchase Transaction of real property
- The exchanged property must be an Investment Property
- The exchanged property must be identified within 45 days
- Title can be held in an LLC, please follow LLC requirements detailed within these guides.
- All proceeds of the initial sale must be controlled by Qualified Intermediary (QI) or Accommodator or Facilitator;
- All proceeds of the initial sale must be re-invested in the like-kind property within 180 days
- of that sale
- When exchanging property, replacement property must be "like-kind" property. Example: Real property must be exchanged with real property, not personal property
- Should exchange funds be used to provide earnest money deposit, the tax payer must sign an Assignment of Purchase and Sale Agreement with the QI/Accommodator/ Facilitator prior to the disbursement.
- Luxury Mortgage Corp. must receive proof that the QI/Accommodator/Facilitator, exchange company or attorney holding funds.

## Ineligible Transactions

- Properties Listed for Sale- Cash-out refinance is not allowed on a property currently listed for sale or has previously been listed for sale in the last (12) twelve month period prior to application
- Escrow Holdbacks – Luxury Mortgage Corp. will not purchase loans where escrow holdbacks have not been settled.
- Land Loans -LMC does not originate loans that it deems, in its sole discretion, to be a "land" loan.
- Texas 50 (a)(4) or 50(a)(6) loans. Any refinance of a homesteaded property in Texas may not have any cash out refinances the mortgage chain since property inception, including combination of a first and one or more subordinate liens.
- Seller Second mortgages (carry backs) are not allowed
- Properties subject to a deed restriction
- Properties subject to a land lease

## SECTION 4: ELIGIBLE APPLICANTS

Applicants may be natural persons that have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located or acceptable entities. There is no maximum age limit for an Applicant. Eligible Applicants include:

- United States Citizen;
- Permanent Resident Alien;
- Non-permanent resident alien;
- Non-occupant Co-Applicant/ Co-Borrower;
- *Inter Vivos* revocable trust;
- Limited Liability Company.

### United States Citizens

United States Citizens are: individuals born in the United States, Puerto Rico, Guam, Northern Mariana Islands, Virgin Islands, American Samoa, or Swain's Island; Foreign-born children, under age 18, residing in the U.S. with their birth or adoptive parents, at least one of whom is a U.S. citizen by birth or naturalization; and individuals granted citizenship status by Immigration and Naturalization Services (INS).

### Permanent Resident Alien

A Permanent Resident Alien holds an I-551 Permanent Resident Card (a.k.a. "Green Card") issued by the Department of Homeland Security (DHS) U.S. Citizenship & Immigration Services (USCIS). This documents that the individual has been awarded permanent residency in the United States.

### Non-Permanent Resident Alien

Non-Permanent Resident Aliens holders of following visa categories are eligible for financing:

H1B, H1C, H4, G1 - G4, E1-E3, L1A, L1B, L2, P1, R1, TN, O-1 Applicant(s) must have been living and working in US for at least 2 years, must have valid Social Security Number(s), have established credit history, have filed tax returns in the U.S. for two years and meet all other guidelines.

### Non-Occupant Co-Applicant/Co-Borrower

Non-Occupant Co-Applicants/Co-Borrower(s) are acceptable when the stand alone debt-to-income ratio of the occupant co-Applicant exceeds Luxury Mortgage Corp.'s qualifying guidelines. The Non-Occupant Co-Applicant/Co-Borrower must be a natural person. Partnerships, corporations, syndications, or trusts (other than *Inter Vivos* Revocable trusts) are all **ineligible**.

Use of income and/or assets from a Non-Occupant Co-Applicant may be applied subject to the following:

- The non-occupant Co-Applicant is required to take title and indebtedness;
- The non-occupant Co-Applicant cannot have an interest in the property sales transaction, such as being the property seller, the builder, or the real estate broker;
- The occupant Applicant must evidence 5% of the required 10% own funds rule regarding the down payment from his/her own sources;
- The occupant Applicant's Housing Ratio cannot be greater than 50%;
- The sum of all Applicants' income and debt must qualify under the specific product or program's parameters.

### Inter Vivos Revocable Trust

An inter vivos revocable, or living trust, is created by a written legal document that transfers legal title to property from an individual to a trust, usually for estate planning or privacy purposes. The individual or individuals that create the trust (often referred to as "creators," "settlers," "grantors," or "donors") are usually named as trustees within the trust and have full control over the property. If the trust is revocable, the individual or individuals setting up the trust have the right to revoke or alter the trust.

Because acceptance of these trusts have the potential to significantly compromise the credit quality of the loan as well as Luxury Mortgage Corp.'s legal ability to foreclose on the subject premises, specialized legal guidance might be required.

## General Requirements

The *inter vivos* revocable trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) 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 qualify for the mortgage. The trustee(s) must include either:

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

The trustee(s) must have the power to mortgage the property for the purpose of securing a loan to the party (or parties) who are the Applicant(s) under the mortgage or deed of trust note.

For loans that close in the name of a trust, the name, physical address of the trustee and the identifying number of the trust (trustor's social security number) must be obtained as part of the trust review process and retained in the permanent loan file.

Irrevocable Trusts are **not** eligible for financing from Luxury Mortgage Corp.

## Legal Requirements for Revocable Trusts

The *inter vivos* revocable or living trust must comply with the following legal requirements:

- The trust document names one or more trustees to hold legal title to and manage the property in trust and the trustee must have the power to mortgage the property for the creator of the trust,
- The title policy must specifically indicate that title is vested in the trustees of the *inter vivos* trust or such other manner as is customary in the jurisdiction for living trusts,
- Loan documents are to be executed to ensure Luxury Mortgage Corp.'s recourse against the underlying creators/Applicant. The creator/Applicant will sign the Note individually as guarantors,
- The trust complies with all applicable state and local laws and regulations,
- The trust meets the requirements of Fannie Mae,

## Limited Liability Company ("LLC")

Generally, Luxury Mortgage Corp. will allow borrowers to close mortgage loans in the name of an approved Limited Liability Company (LLC). Loans in the name of an LLC will be qualified based on the guarantor's credentials. The ability to close in the name of an LLC will be made available for all Luxury Mortgage Corp. products (Subject to each product's restrictions). Eligible LLC for this product: Domestic Limited Liability Company (LLC) whose holdings are limited to the subject property or mortgage loan secured by the subject property. LLC can be Member-managed and/or Manager-managed. If LLC is Manager-managed, Manager must be a member of the LLC. At least one member of an LLC, who may be U.S. Citizens, Permanent Resident Aliens, Non-Permanent Resident Alien, Non-Resident Alien (Non-Resident Aliens are subject to BSA approval), must qualify and personally guaranty the loan.

## Underwriting Requirements

<b>Eligible Borrower(s)</b>	<p>Domestic Limited Liability Company (LLC) whose holdings are limited to the subject property or mortgage loan secured by the subject property.</p> <ul style="list-style-type: none"> <li>➤ Members of the LLC must be natural persons and be beneficial owners of the property</li> <li>➤ The operating agreement must provide the term of the LLC and the members authorized to encumber the LLC as guarantors</li> <li>➤ At least one member of an LLC, who may be U.S. Citizens, Permanent Resident Aliens, Non-Permanent Resident Alien, must qualify and personally guaranty the loan.</li> </ul>
<b>Eligible LLC (s)</b>	<ul style="list-style-type: none"> <li>➤ Must be formed and be legal in the state in which the LLC is being formed</li> <li>➤ Must be created prior to or at application</li> <li>➤ LLCs are acceptable in all lending areas</li> </ul>
<b>Documentation requirements:</b>	<ul style="list-style-type: none"> <li>➤ Evidence supporting LLC is existing or has been formed</li> <li>➤ Resolution to Borrow</li> <li>➤ Articles of Organization</li> <li>➤ Operating Agreement</li> <li>➤ Certificate of Good Standing, if applicable</li> <li>➤ Copy of SS4, entity must have separate Tax ID # (TIN)</li> </ul>



<b>Business Search</b>	Businesses will be validated through state level web resources. These include but are not limited to: CT: <a href="http://www.ct.gov/sots">www.ct.gov/sots</a> FL: <a href="http://www.Sunbiz.org">www.Sunbiz.org</a> NJ: <a href="http://www.njportal.com/DOR/businessrecords/">www.njportal.com/DOR/businessrecords/</a> NY: <a href="http://www.dos.ny.gov/corps/bus_">www.dos.ny.gov/corps/bus_</a>
<b>Liabilities</b>	The Guarantor's personal debts as disclosed on the application must be verified and counted in Debt to Income ratio.

## Ineligible Applicants

- Blind Trusts (may be considered on an exception basis)
- Land trusts
- Non-LLC corporate entities i.e., partnership, corporation



## SECTION 5: OCCUPANCY

### Primary Residence

Applicant(s) are limited to one (1) Primary Residence. A Primary Residence is defined as: the property occupied (or intended to be occupied) the majority of the year by the Applicant, usually located in the same general area as the Applicant's income source, and typically, this is also the address of record used in filing the Applicant's Individual Income Tax Return Form 1040.

### Second Home

A second home is defined as a residence the owner uses in addition to his/her/their primary residence. Second Homes are most commonly utilized as vacation home, or as a secondary property located in a central city when the primary home is located in a suburb, but the owner works in the city. Generally, the property should be located in a natural second home market typically located at least 50 miles from the Applicant's primary residence.

The Second Home residence should meet the usage classification for a Second Home as defined by the Federal IRS regulations. No significant rental income or rental expenses can be reported on Schedule E on the Applicant's personal tax returns for the subject property. The Applicant must have personally resided (or intends to personally reside), in the property for some part of the year as evidenced through mortgage interest tax deduction on the personal tax return on Schedule A or, a signed statement (e.g., occupancy certification) or other documentation affirming intent from the Applicant.

- The property may not be leased or rented, or intended for lease or rental, other than on an occasional basis;
- The property must be suitable for year round residence. Any appraisal comment to the contrary (e.g., lack of year round necessities or access), shall constitute reason for unacceptable collateral;
- Property should be in a typical second home area, otherwise satisfactorily justified by the Applicants as a second home;
- Second Homes are not allowed on 2 – 4 Multifamily property types;
- No rental income can be used to qualify the applicant.

### Investment Property

Properties that do not meet the definition of Primary Residence or Second Home are considered Investment Property. Luxury Mortgage Corp. provides financing for investment properties.

## SECTION 6: DOCUMENTATION

Reasonable ability to repay the mortgage debt is based on the Applicant(s) employment history, income source(s) and past credit experience which must be commensurate with the loan request. Luxury Mortgage Corp. will utilize the standards found in Appendix Q to 12 C.F.R., Part 1026 in all cases except where otherwise noted.

### Documentation Types

Luxury Mortgage Corp. must fully document all loan files relative to these guidelines. A Full Documentation loan refers to a loan where all income, employment, assets, and valuation are documented and verified. Luxury Mortgage Corp. requires twenty four months of verified income and employment history in addition to verification of assets. Verification of personal assets should cover a period of at least 2 months. Verification of business assets should cover a period of at least 3 months.

Luxury Mortgage Corp. must make a reasonable determination that the Applicant's employment and income will continue for the first three years of the loan.

### Age of Documentation

Credit documents include credit reports and employment, income, and asset documentation. The credit documents must be no more than 90 days old on the date the note is signed.

### Age of Appraisal or Age of Property Inspection

The appraisal is valid for 120 days. A recertification of value may be acceptable for an additional 60 days. If the property value has declined, a new full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. In no case can the appraisal be greater than 180 days prior to the Note date.

### Required Documents for Loan Submission

Refer to Luxury Mortgage Corp. Wholesale website.

### Income Documentation Sources

The following is a list of documents that may be analyzed in order to determine effective income relative to compliance with ATR. Please note, however, that this list is not all-inclusive.

- Wage and Tax Statement - IRS Form W-2s for the prior two calendar years
- Individual Tax Returns - IRS Form 1040 (self-employed, 2 years)
- Interest Income Statement – IRS Form 1098
- Income Statement - IRS Form 1099
- Partnership Tax Returns - IRS Form 1065 / Schedule K-1
- Corporate Tax Returns - IRS Form 1120/IRS Form 1120S/ Schedule K-1
- IRS Form 4506-c / IVES / IRS Form 8821
- Award Letters
- Employment Contracts
- Lease Agreement
- Offer letters
- Pay stubs (1 full month with YTD earnings)
- Pension Letters
- Profit and Loss Statements
- Social Security Income letters
- Trust Agreements
- Written and verbal Verification Of Employment (VOE)
- Items not listed above that are accepted by Luxury Mortgage Corp.'s Credit Risk on a case by case basis

### Tax Return Requirements

- Luxury Mortgage Corp. requires a minimum of two years personal tax returns from the Applicant, including all schedules. Since tax transcripts are required unsigned tax returns are acceptable.
- If tax returns are required and the tax-filing deadline has passed without the Applicant's filing, Luxury Mortgage Corp. must obtain a properly executed notice of extension for our review and loan file

## Internal Revenue Service (IRS) 4506-C / IVES

4506-C / IVES must be executed, and the IRS transcripts obtained on all transactions.

## Verbal Verification of Employment

A verbal verification of employment (VVOE) is required on every loan. The VVOE must be obtained within 5 business days of the Note Date. If the Information provided by independent third-party vendor (such as Work Number) is stale, seller must provide most recent paystub for pay period that is dated within 5 business days of the note date.

### VVOE for Salaried Applicants

The following requirements for a VVOE apply to Applicants whose incomes are based on hourly, salary or commission:

- Luxury Mortgage Corp. must independently obtain a telephone number and, if possible, an address for the Applicant's employer. This can be accomplished by using independent third party sources or by contacting the applicable licensing bureau.
- Luxury Mortgage Corp. must contact the employer verbally or in writing and confirm the Applicant's current employment status along with position or title within 5 business days of the Note date.
  - If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the telephone number.
  - The written documentation should also include the name and title of the person who performed the verification on behalf of Luxury Mortgage Corp.
  - The VVOE must indicate the date of hire.

### VVOE For Self-Employed

The following requirements for a VVOE apply to Applicants whose incomes are based on self-employment

- Luxury Mortgage Corp. must verify the existence of the Applicant's business from a third party entity such as a CPA, regulatory agency or applicable licensing bureau within 5 business days of the Note date
- Luxury Mortgage Corp. must verify a telephone listing and address for the Applicant's business using independent third party sources. (Internet listing for the business should be provided)

## SECTION 7: INCOME AND EMPLOYMENT

Analyzing an Applicant's present and past employment provide the basis for evaluating employment stability, which is a precursor to income stability. Applicants are qualified based on calculated stable monthly income. Stable monthly income consists of those amounts and sources which are reasonably expected to continue. Employment must be stable with at least a two year history in the same job or jobs in the same or related field. Self-employed Applicants must have been in business for at least two years. Applicants who are employed should evidence stability in employment with no significant (greater than 30 days) unexplained gaps.

### General Policy on Income Analysis

The income of each consumer who will be obligated for the mortgage debt must be analyzed to determine whether his/her income level can be reasonably expected to continue through at least the first three years of the mortgage loan. In most cases, a consumer's income is limited to salaries or wages. Income from other sources can be considered as effective, when properly verified and documented by the creditor.

Unless waived by the specific product offering, verification of qualifying income sources and amounts are required critical components in the determination of credit worthiness. To assess the likelihood of continuity and stability, greatest weight is given to historical experience that can be verified to the satisfaction of Luxury Mortgage Corp. All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue for a minimum of three years. **In no case can income be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the first three years of the loan.** Using an average of the past two years is usually common and customary for income streams that are variable but evidence consistency and stability.

### Salaried Applicants

Salaried Applicants are defined as individuals who have less than 25% ownership in the business from which they derive the salary. Luxury Mortgage Corp. requires salaried Applicants to exhibit the following employment standards:

- A minimum of two years employment which may be demonstrated across different employers in the same or related field;
- The Applicant must explain any gaps in employment that span one or more months in writing, and indicate if he/she was in school or the military for the recent two full years, providing evidence supporting this claim, such as college transcripts, or discharge papers. Allowances can be made for seasonal employment, typical for the building trades and agriculture, if documented;
- Applicant(s) should exhibit the potential for maintaining continuous employment and/or income.
- In cases where an Applicant exhibits short employment because he/she has just entered the job market the following factors should be considered:
- The Applicant may have potential for increased earnings and advancement because he/she has just entered or re-reentered the job market and has received job training, a degree, or a diploma in his/her current field of employment,
- In the above incident, the Applicant must provide supporting documentation in the forms of a diploma, job training certificate, or transcripts.
- In cases where the Applicant is re-entering the work force, the above information should be followed, plus:
- Obtain documentation to support that the Applicant has been at their current employment for a minimum of 6 months and documentation to show a previous work history.

### Analyzing an Applicant's Employment Record

When analyzing the probability of continued employment, all of the following must be examined:

- The Applicant's past employment record;
- Qualifications for the position;
- Previous training and education; and
- The employer's confirmation of continued employment.

Favorably consider an Applicant for a mortgage if he/she changes jobs frequently within the same line of work but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

### Applicants Returning to Work after an Extended Absence

An Applicant's income may be considered effective and stable when recently returning to work after an extended absence if he/she:

- Is employed in the current job for six months or longer; and
- Can document a two year work history prior to an absence from employment using:
  - Traditional employment verifications; and/or
  - Copies of IRS Form W-2s or pay stubs.

**Note:** An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce. **Important:** Situations not meeting the criteria listed above may not be used in qualifying. Extended absence is defined as six months.

## Relocation Overview

In most cases, relocation is defined as a transaction where the Applicant (or co-Applicant) is relocating, at the employer's request, to another location at least 50 miles from the current locale. Written verification from the employer stating the relocation is sanctioned and that the employee will be receiving benefits to facilitate the move should be obtained.

Relocation can involve temporary shifts and/or displacement to the Applicants' cash flow and balance sheet. Situations contributing to these shifts include but are not limited to temporary loss of co-Applicant income, an artificially high DTI ratio due to duplicate housing expenses, or depletion of liquid assets to accommodate these situations. Since some relocation benefits may not be available to all relocating employees, Luxury Mortgage Corp. must obtain employer verification detailing those specific benefits the Applicant is qualified to receive.

## Non-Taxable Income

Income that is determined to be non-taxable may be grossed up by a factor of 1.25 and used in the qualification of the Applicant(s). In order to gross up income, the file must contain a complete copy of the most recently filed federal tax return evidencing the non-taxable status of the income supporting the decision to use the increased income amount, unless the income is from a source defined as Non-Taxable in all instances.

### Types of Non-Taxable Income

Certain types of regular income may not be subject to Federal tax. Such types of nontaxable income include:

- Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income;
- Certain types of disability and public assistance payments;
- Child support;
- Military allowances; and
- Other income that is documented as being exempt from Federal income taxes.

### Adding Non-Taxable Income to an Applicant's Gross Income

- The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the Applicant's gross income.
- The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.
- Luxury Mortgage Corp.:
  - Must document and support the amount of income grossed up for any non-taxable income source, and
  - Should use the tax rate used to calculate the Applicant's last year's income tax.
- Note: If the Applicant is not required to file a Federal tax return, the tax rate to use is 25 percent.

## Family Owned Business

An Applicant employed by a family owned business (but is **not** self-employed) or employed by an interested party to the property sale, purchase, or financing transaction may represent a less predictable source of income. In addition to normal employment verification, an Applicant employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include: copies of signed personal tax returns, or a signed copy of the corporate tax return showing ownership percentage.

## Military Income

Military personnel often receive supplemental income in addition to regular base-salary income. Supplemental income amounts can be used for military personnel provided the pay is verified in writing by the branch of the military the Applicant is in and the income is not subject to near-term elimination such as flight/hazard pay and professional pay. The tax-exempt nature of some of the income should be considered. Additional forms of pay that military personnel may be entitled to include but is not limited to the items below:

- Income from variable housing allowances;
- Clothing allowances;
- Flight or hazard pay;
- Rations; and
- Proficiency pay.

## Partial Year Paid Applicants

Certain Applicants (such as teachers or forest fire fighters) may be paid for only part of the year. Luxury Mortgage Corp. must ensure that the monthly qualifying income calculation incorporates this partial-year employment. To determine a partial year paid Applicant's qualifying income, the monthly salary is multiplied by the number of months the Applicant is paid and divided by 12.

## Employment Contracts

An employment contract is a legally enforceable written document executed jointly by the employer and employee. Employment agreements and offer letters are additional forms of acceptable employment documentation, provided they are fully executed by all parties and afford the same information as previously described.

The contract (including employment agreements and offer letters) should define pertinent employment details including employment start date, the Applicant's length of employment and salary. The contract may also include such things as benefits and other related terms of employment. Luxury Mortgage Corp. must qualify an Applicant utilizing the income documented in the employment contract as defined provided:

- The employment contract is fully executed by the employer and employee and does not contain contingencies,
  - The Applicant will start employment within 60 days of closing,
  - The terms of the contract are deemed reasonable by Luxury Mortgage Corp.,
  - The borrower is not to be employed by a family member or by an interested party to the transaction
- Projected income may be acceptable for new employment if supported by contract Projected Income for New Job Projected income is acceptable for qualifying purposes for an Applicant scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment.
- Luxury Mortgage Corp. must verify that the Applicant will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or physicians beginning a residency after the loan closes fall under this category.

## Leave of Absence – Maternity, Paternity or Medical Related

Short-term income, such as maternity or adoption leave and disability pay, is generally not an acceptable source due to its temporary nature. However, Luxury Mortgage Corp. will consider regular employment income from an Applicant that is on a temporary leave of absence, even if the Applicant will not be returning to work at the time of closing. The leave of absence must be due to maternity or medical-related reasons (or other FMLA absences supported by the Applicant's employer) and provided the following condition is met:

- Written verification from the Applicant confirming his or her intent to return to work upon completion of the leave of absence under the same terms as prior to the leave and a scheduled date for returning to work which must not be more than 60 days after the closing date of the loan.

Documentation from the Applicant's employer confirming the Applicant's continued employment with the company, the date the Applicant will return to work, and the Applicant's employment will be under the same terms as prior to the leave is required. When the leave of absence is medical in nature, the employer's verification of return date must indicate that medical clearance (if required by the employer) has been obtained.

If all the above conditions cannot be met, the Applicant must return to work prior to closing for the employment income to be eligible for qualification purposes.

## Self-Employed Applicants and Income Analysis

A "self-employed" Applicant is defined as any Applicant for whom substantial qualifying income comes from an enterprise the Applicant owns outright or substantially controls. An ownership share of 25% or more shall constitute the benchmark for "substantial control."

The self-employed Applicant's business entity must be analyzed to assess the reasonableness and recurring nature of income streams from the business. Applicant owned business must be analyzed to ensure that the business is profitably viable, is generating sufficient cash-flow to fund internal business needs and can provide the owner (the Applicant) with sufficient salary and/or distributions so that he/she can repay all debt obligations.

Greatest weight is given to historic income data that can be verified to the satisfaction of Luxury Mortgage Corp. All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue to be received for a minimum of three years.

Using an average of the past two years is usually common and customary for income streams that are variable but evidence consistency and stability.



## Contract Employees

Luxury Mortgage Corp. considers contract Applicants (Applicants who are paid on a contractual basis as “independent contractors”) as self-employed Applicants. Contract Applicants must provide the same documentation as self-employed Applicants.

## Employment Stability Standards for Self Employed Applicants

An applicant with a 25 percent or greater ownership interest in a business is considered self-employed. Luxury Mortgage Corp. requires self-employed Applicants to exhibit the following stability standards:

- The applicant must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. A combination of one year of self-employment and formal education or training in the line of work in which the Applicant is self-employed or in a related occupation may be acceptable.
- If the Applicant has been self-employed for less than one year, the income from the consumer may not be considered effective.
- Applicants should exhibit the potential for maintaining continuous operation of business and income,
- For those Applicants with fluctuating or diminishing income from business, the ability to meet current and future obligations must be evidenced.

## General Documentation Requirements for Self Employed Applicants

Generally, a minimum of the last two years of business tax returns including all schedules and statements are required for all self-employed Applicants. An extension for personal tax returns may be required when tax returns have not been filed along with proof of payment of any liability listed as payable with the extension.

If any Applicant on the loan application is self-employed and the self-employment income is not used to qualify, the Applicant's individual federal tax returns must be obtained to determine whether there is a business loss that may have an impact on the stable monthly income used for qualifying.

Self-employed Applicants must provide the following documentation:

- Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years. Note: Unsigned tax returns are acceptable if supported by IRS tax returns transcripts;
- For a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two years, with all applicable tax schedules. Note: Unsigned Business income tax returns are acceptable if income / loss passed through to individual tax returns or supported by IRS tax returns transcripts;
- Year to date profit and loss (P&L) statement and balance sheet.
- CPA letter to validate self-employment- will be valid for 90 days

## Minimum Length of Self Employment

Income from self-employment is considered stable, and effective, if the Applicant has been self-employed for two or more years. Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for Applicants who have been self-employed for less than two years.

If the period of self-employment is:	Then
Between one and two years	To be eligible for a mortgage loan, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation  <b>Note:</b> A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable
Less than one year	The income from the Applicant may not be considered effective income.



## Types of Business Structures

There are four basic types of business structures:

- Sole proprietorships
- Corporations
- Limited liability or "S" corporations
- Partnerships.

### ***Sole Proprietor***

A sole proprietor generally files Schedule C with the personal tax returns for the business' income. Income verification requirements:

- Personal Tax Returns – generally, a minimum of the last two years of personal tax returns including all schedules;
- If the tax filing deadline has passed without the Applicant filing, Luxury Mortgage Corp. will require a properly executed notice of extension to be included in the file.

### ***Partnership***

Partnership income is generally shown on Schedule K-1 and is filed with the Applicant's personal tax returns as well as with the partnership returns. If the Applicant or Applicants combined controls are 25% or more of the business entity, the following documentation is required, at a minimum:

- Personal Tax Returns.
- Two most recent years Partnership Tax Returns (1065s),
- Two most recent years of the K-1s from the partnership to the individual.

Limited Liability Companies file taxes using partnership tax returns. The partnership tax return requirements listed above apply to these companies.

### ***Corporation***

If the Applicant or Applicants combined controls are 25% or more of the business entity, the following documentation is required, at a minimum:

- Personal Tax Returns,
- Two most recent years of Corporate Tax Returns (**1120S or 1120**) (if applicable),
- Two most recent years of the K-1s from an "S" Corporation to an individual.

### ***Use of Profits from a Corporation***

In addition to the self-employed income or salary paid to the Applicant(s) by the Corporation; in order to use business "net profits" from a Corporation as a qualifying income source, the Applicant(s) on the loan application must have complete (100%) ownership of the Corporation as evidenced by the business tax returns or letter from the accountant for the business. Additionally, the following requirements must also be met:

- The Applicant(s) must have a legal right to the additional income by obtaining a corporate resolution or other comparable document that establishes that right,
- There must be a minimum 2 year history of the Applicant(s) receiving this income,
- Verification from the accountant for the company indicating that the business can support the ongoing distribution of the corporate profits at the same or increasing level,
- Luxury Mortgage Corp.'s analysis of the business must also support that the business is capable of providing the Applicant(s) with the additional income.

### ***Limited Liability Company (LLC)***

Limited Liability Companies file taxes using partnership tax returns. The partnership tax return requirements listed above apply to these companies.

## Year-to-Date Profit and Loss and Balance Sheet

Luxury Mortgage Corp. will require a year-to-date profit and loss statement and Balance Sheet for any self-employed Applicant whose application is dated more than 120 days after the end of the business' tax year regardless of the type of business.

### ***Business income NOT used to qualify***

Luxury Mortgage Corp. will not require corporate/partnership tax returns if the income is insignificant and not considered to qualify. **The underwriter must ensure that there are no losses in businesses not being considered.**

## Self Employed Business Losses

Self-employed business losses must be taken into account as part of the underwriting and risk assessment of the loan file. The amount of any losses incurred by the business must be deducted from the qualifying income, based on the Applicant's percentage of ownership in the business.

In addition to reducing the qualifying income for debt ratio calculation purposes, any losses must be taken into account as part of the analysis of the business as indicated above.

## Employment Income – Variable Sources

Variable income sources should be carefully analyzed as they are subject to external influences that may be beyond the Applicant's control. If included in qualifying income, variable components of income, especially bonuses and commissions, must be separately reported, if possible. **Declining income sources should not be averaged, and an explanation for the decline should be obtained.** The most recent lower income must be used for qualification purposes. Sufficient pay stubs/statements must be obtained to validate the monthly (and/or annual) income calculation. Usually, at minimum, two pay stubs/statements are required. Tax Returns are required based on the variable income source.

Any significant increase in income should be adequately explained and documented. Greatest weight is given to historic income data that can be verified to the satisfaction of Luxury Mortgage Corp. All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue to be received for a minimum of three years. Provided there is no evidence that the income source will cease within the next three years, it can be reasonably assumed that the income will continue. In no case can income be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the next three years.

## Bonus Income

To use bonus income for mortgage qualification, Luxury Mortgage Corp. will carefully consider the source and method used in quantifying bonus income, and the basis upon which the bonus is earned (i.e., personal sales or company profit). To include bonus income as qualifying income, the Applicant must have a consecutive, and most recent, two-year history with the same employer and the bonus income must be determined and separately stated for the two-year period. Luxury Mortgage Corp. must reasonably believe that the bonus income will continue for the first three years of the loan.

In the event of change in employment, in order to consider bonus income for mortgage qualification, Luxury Mortgage Corp. must document that:

- Borrower(s) who changed employment are in the same line of work;
- Bonus income is expected and in line with previous job/position;

## Overtime Income

- Overtime income can be used to qualify the Applicant if he/she has received this income for the past two years, and it will likely continue. If the employment verification states that the overtime income is unlikely to continue, it may not be used in qualifying.
- Luxury Mortgage Corp. must develop an average of overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided Luxury Mortgage Corp. can justify and document in writing the reason for using the income for qualifying purposes.

## Establishing an Overtime and Bonus Income Earning Trend

- Luxury Mortgage Corp. must establish and document the earnings trend for overtime income. If the income shows a continual decline, Luxury Mortgage Corp. must document in writing a sound rationalization for including the income when qualifying the Applicant.
- A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

## Commission Income

A commissioned Applicant is one who receives more than 25 percent of his/her annual income from commissions. Commission income may fluctuate from year to year and therefore, an average of the last two years of income should be used in qualifying the Applicant. To include commission income as qualifying income the Applicant must have a consecutive, and most recent two-year history in the same field and the commission income must be determined and separately stated for the two-year period.

Annual earnings should be level or increasing from one year to the next. If the trend for the commission earnings shows a decline, it should not be considered as stable income

If commission income is being used as qualifying income (regardless of the percentage), Luxury Mortgage Corp. must obtain copies of the Applicant's signed federal income tax returns that were filed with the IRS for the past two years and must require confirmation of the Applicant's current employment and year-to-date earnings.

Applicants whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can document the likelihood that the income will continue and soundly rationalize accepting the commission income.

#### **Qualifying Commission Income Earned for Less Than One Year**

Commission income earned for less than one year is reviewed on a case-by case basis. For example, Applicant's compensation was changed from salary to commission within a similar position with the same employer.

#### **Restricted Stock Units (RSU)**

A Restricted Stock Unit (RSU) is compensation offered by an employer in the form of company stock. The employee does not receive the stock immediately, but instead receives it according to a vesting plan and distribution schedule. The restricted stock units (RSU) are assigned a fair market value when they vest. Upon vesting, they are considered income, and portion of the shares is withheld to pay income taxes. The employee receives the remaining shares and can sell them at any time. RSUs are considered an acceptable source of income when a two year history of vesting and exercise can be documented.

Calculation of RSU income:

- Using the vesting schedule, identify the RSUs that will vest over the next 12 months or RSUs vested over the past twenty-four months and use the lower amount

**Identify the stock price based on the 52 week low reported at the time of lock and multiply by the number of shares vesting. Divide the result by 12 to determine monthly income.**

#### **Stock Options**

Corporate stock options are frequently used by an employer as an incentive to attract new hires or to compensate employees with a more direct interest in the success of the company. Stock options are generally not utilized as an eligible source of income as values are subject to significant fluctuations or may not be readily ascertainable. Additionally, there are often restrictions on when and how the options may be exercised. Stock options can be utilized as income if a two year history of vesting and exercise can be documented

#### **Stock Appreciation Rights**

A Stock Appreciation Right (SAR) is an award which provides the holder with the ability to profit from the appreciation in value of a set number of shares of company stock over a set period of time. The valuation of a stock appreciation right operates exactly like a stock option in that the employee benefits from any increases in stock price above the price set in the award. However, unlike an option, the employee is not required to pay an exercise price to exercise them, but simply receives the net amount of the increase in the stock price in either cash or shares of company stock, depending on plan rules.

Stock Appreciation Rights are similar to Stock Options in that they are granted at a set price, and they generally have a vesting period and an expiration date. Once a SAR vests, an employee can exercise it at any time prior to its expiration. The proceeds will be paid either in cash, shares, or a combination of cash and shares depending on the rules of an employee's plan. If proceeds are received in shares, they can be treated as any other shares of stock in a brokerage account.

SARs can be utilized as income if a two year history of vesting and exercise can be documented

#### **Employer Differential Payments**

Mortgage interest-rate differential payments may be used as qualifying income provided the employer verifies the amount, terms, and payment method for the differential payment, provided three (3) year continuance can be documented. The employer cannot be an interested party to the transaction.

If the employer subsidizes an Applicant's mortgage payment through direct payments, the amount of the payments is considered gross income, and cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly.

#### **Gratuities and Tips**

Gratuities and tips can only be included in qualifying income if they have been included in the prior **two years** of taxable income. This income source is usually found on W-2s or 1040s. The income should be reported to the IRS and averaged, unless declining.

## Part-time or Second-job Income

For qualifying purposes, “part-time” income refers to employment taken to supplement the Applicant’s income from regular employment; part-time employment is not a primary job and it is generally worked less than 40 hours.

- Part-time and seasonal income can be used to qualify the Applicant if Luxury Mortgage Corp. documents that the Applicant has worked the part-time job uninterrupted for the past two years and plans to continue.
- Part-time income received for less than two years may be included as effective income, provided that Luxury Mortgage Corp. justifies and documents that the income is likely to continue.
- Part-time income not meeting the qualifying requirements may not be used in qualifying.

## Primary Employment Less Than 40 Hour Work Week

When an Applicant’s primary employment is less than a typical 40-hour work week, Luxury Mortgage Corp. will evaluate the stability of that income as regular, on-going primary employment.

Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the Applicant’s primary employment, and should be considered effective income.

## Seasonal Income

To use seasonal (i.e., income based on annually recurring but temporary circumstance) job income as qualifying income, the income should have a two-year historical record and can be verified via the Applicant’s most recent pay stub and previous year’s W2s. Seasonal employment includes umpiring baseball games in the summer; or working at a department store during the holiday shopping season.

Seasonal income is considered uninterrupted, and may be used to qualify the Applicant, if Luxury Mortgage Corp. documents that the Applicant has worked the same job for the past two years and expects to be rehired the next season.

## Annuity

Annuity income is acceptable with a copy of the annuity contract or letters from the organization providing the income and one of the following showing receipt of the income - the most recent year’s W-2s, 1099s, or Federal Income Tax Returns and 12 months bank statements reflecting regular deposits of the annuity income. If used to qualify, annuity income must continue for at least three (3) years.

## Capital Gains

Luxury Mortgage Corp. will **not** include capital gains or losses that arise from the sale of assets as qualifying income or deductions to income because they are usually non-recurring. However, Luxury Mortgage Corp. may allow utilizing Capital Gains income, if capital gains income is customary for Applicant’s occupation and Applicant has a constant turnover of assets resulting in gains or losses. A **three-year** history of capital gains income/losses must be documented by obtaining copies of borrower’s signed federal income tax returns (Schedule D) to determine earning trend. If trend results in a gain, it may be added as effective income, or consistently show a loss, it must be deducted from the total income.

Luxury Mortgage Corp. must document anticipated continuation of income through verified assets/property that can be sold in the future.

**Example:** Luxury Mortgage Corp. can consider the capital gains for an individual who purchases old houses, remodels them and sells them for profit.

## Interest/ Dividend

Investment income may be used as stable monthly income. When markets are stable, Luxury Mortgage Corp. may generally use the documented earnings. During periods of volatility or when verified earnings do not appear to be supported by current market conditions, Luxury Mortgage Corp. may use an earnings rate of 3%. To include interest or dividend income from cash or marketable securities in qualifying income, the following guidelines will be used:

- The income has been received for the past two years as verified by tax returns
- Year to date income is in line with previous earnings
- verification that the underlying cash deposits and/or securities still exist must be obtained within 30 days of closing,
- required funds necessary for closing on the subject transaction must be subtracted prior to the calculation of interest/dividend income,
- year-to-date interest and dividend income should be averaged with the last two years as verified by the Applicants’ tax returns, unless declining,
- year-to-date earnings can be imputed by applying a realistic market-rate of interest to the account balances and averaging over the number of months,
- do not include from margined securities in the calculation of interest/dividend income.
- interest from pass-through tax entities (partnerships and S corporations) may be included on a case by case basis

### Analyzing Interest and Dividends

- Interest and dividend income may be used as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years.
- Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income.

### Investment Gains/Losses from Business

Apparent gains or trivial losses on **Schedule E** of the personal tax return may mask sizeable, required future liabilities or contributions. Consequently, analysis of **Schedule E** and **K-1** statements (that reveal contingent liabilities, historic capital contributions and possible future liabilities) is important in assessing future customer liability or potential qualifying income.

A letter from the partnership or S corporation tax return preparer specifying future contributions, obligations, debt responsibility, and income projections will be obtained whenever possible.

Any income derived from investment activity found on **Schedule E** of the personal tax returns should be based upon a 2-year tax return analysis and averaged, unless declining.

### Non-Taxable Interest/Dividend Income

To use non-taxable income (e.g., municipal bond tax-exempt interest, etc.) as qualifying income, Luxury Mortgage Corp. must obtain written verification of the income by bank statements or award statements and ensure that the income has at least a two-year history.

### Notes Receivable Income

To use interest income from a Note Receivable the Note must evidence continuance for at least three years. In order to include notes receivable income to qualify an Applicant, he/she must provide:

- A copy of the note to establish the amount and length of payment, and
- Evidence that these payments have been consistently received for the last 12 months through deposit slips or cancelled checks, and tax returns.
- Evidence that this income will continue for at least three (3) years.

If the Applicant is not the original payee on the note, Luxury Mortgage Corp. must establish that the Applicant is now a holder in due course, and able to enforce the note.

### Rental/Investment Property Income

In order to use rental income from investment properties as a qualifying income source, the Applicant must demonstrate at least a two-year history through tax returns of managing 1-4 Unit Investment Properties. A fully executed current lease agreement is required.

Rental income from 5+ unit properties and properties that are commercial in nature can be utilized if a two year history has been demonstrated through tax returns. If leases are not available, rent roll may be provided. Losses will be included in the debt to income calculation.

Rental income may be utilized if an investment property is not reflected on the prior year Schedule E, only in the event it was acquired subsequent to the filing the most recent tax return. 75% of the monthly gross rental income may be utilized for qualification, less applicable PITIA. Copy of executed current lease agreement (s) with minimum of 12 months term is required.

If the subject property is an investment property, rental income can be used to qualify provided all of the following conditions are met:

- The applicant must demonstrate at least a two year history through tax returns of managing 1-4 unit investment properties,
- Rental income from subject property is not the sole source of income used to qualify for the loan and **not to exceed 50% of total qualifying income.**
- if an investment property is not reflected on the prior year's tax returns (purchase transaction or subject property was acquired subsequent to filing the most recent tax returns) 75% of the monthly gross rental income may be utilized for qualification, less applicable PITIA. Copy of executed current lease agreement (s) with minimum of 12 months term is required. In the event if subject transaction is a purchase transaction and executed lease is not available, monthly rental income can be obtained from Comparable Rent schedule less 25% for vacancy factor.

**NOTE:** If an investment property was acquired subsequent to filing the most recent tax returns minimum seasoning requirement must be met: 6 months ownership.



### **Rental Income from Applicant Occupied Property**

- The rent for multiple unit property where the Applicant resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.
- Applicant must demonstrate rental history with current rental leases or use the latest two years Tax returns Schedule E for rental history and Comparable Rent Schedule. 24 month rental history not required.
- Projected rent for the tenant-occupied units only may:
- Be considered gross income, only after deducting vacancy and maintenance factors, and
- Not to be used as a direct offset to the mortgage payment.

### **Documentation Required To Verify Rental Income**

Analysis of the following required documentation is necessary to verify all Applicant rental income:

- IRS Form 1040 Schedule E; and
- Current leases/rental agreements or use the latest two years Tax returns Schedule E for rental history.

### **Analyzing IRS Form 1040 Schedule E**

- The IRS Form 1040 Schedule E is required to verify all rental income. Follow FNMA form 1038 (or similar) for rental income calculation.
- Positive rental income may be used for qualifying purposes, while negative income must be treated as a recurring liability.
- Correspondent must confirm that the Applicant still owns each property listed, by comparing Schedule E with the real estate owned section of the URLA.

### **Using Current Leases to Analyze Rental Income**

The Applicant can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on Schedule E. In order to calculate the rental income:

- Reduce the gross rental amount by 25 percent for vacancies and maintenance;
- Subtract PITI and any homeowners association dues; and
- Apply the resulting amount to income, if positive, or recurring debts, if negative.

### **Principal Residence Being Vacated by an Applicant**

When an Applicant vacates a principal residence in favor of another principal residence, the rental income, reduced by 25% vacancy factor, may be considered in the underwriting analysis. In order to use rental income, the property must have at least 25% equity. The below documentation may be used to support the equity position:

- A current (no more than 6 months old) residential appraisal (the appraisal, in addition to FNMA 1004 /Freddie Mac 70, may be an exterior- only appraisal FNMA 2055 and for condominium (FNMA 2095), form FNMA 1075/Freddie mac 466) , or
- Comparing the unpaid principal balance to the original sales price of the property

In order to use the rental income a properly executed lease agreement (that is, a lease signed by the Applicant and the lessee) of at least one year's duration is required. Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner. Qualify at 75% of the monthly gross rental income may be utilized for qualification, less applicable PITIA.

### **Royalty/Lease Income (Other than Real Estate)**

Luxury Mortgage Corp. will carefully consider the source and method in quantifying this type of income and develop a comfort as to its reasonableness and continuity. Royalty/lease income is found on Schedule E of the personal tax return. To use royalty or lease income:

- copies of the contracts or leases should be obtained. The payers of the leases/contracts should be identified
- the income should have a two-year minimum track record
- a two-year average of the income should be used, unless declining;
- evidence of at least three (3) year continuance is required.

### **Trust Income**

Trust income is an acceptable source of income and can be verified via K-1 Statements, Schedule B, Schedule D, or Schedule E of the personal tax return depending on the composition of the trust assets.

- Income from trusts may be used if guaranteed, constant payments will continue for at least the first three years of the mortgage term.
- Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:
  - Amount of the trust;
  - Frequency of distribution; and

- Duration of payments.

Trust account funds may be used for the required cash investment if the Applicant provides adequate documentation that the withdrawal of funds will not negatively affect income. The Applicant may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

For Asset Distribution, a trust certificate may be used in lieu of a trust agreement in states where it is customary to do so.

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

Generally, Luxury Mortgage Corp. requires proof of payment obligation for the past 12 months as evidenced by the divorce decree, a signed separation agreement, or a notarized agreement signed as dictated by local custom. Luxury Mortgage Corp.'s underwriter will determine eligibility of usage based on the continuance of at least 3 years.

Alimony, child support, or maintenance income may be considered effective, if:

- Payments are likely to be received consistently for the first three years of the mortgage;
- The Applicant provides the required documentation, which includes a copy of the:
  - Final divorce decree;
  - Legal separation agreement;
  - Court order; or
  - Voluntary payment agreement; and

The Applicant can provide acceptable evidence that payments have been received during the last 12 months, such as:

- Cancelled checks;
- Deposit slips;
- Tax returns; or
- Court records.

#### **Notes:**

- Periods less than 12 months may be acceptable, provided that Luxury Mortgage Corp. can adequately document the payer's ability and willingness to make timely payments.
- Child support may be "grossed up" under the same provisions as non-taxable income sources.

### **Automobile Allowance and Expense Account Payments**

The full amount of an automobile allowance may be included in qualifying income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio, provided evidence of receipt for two years is verified via one of the following:

- Written verification from the employer, or
- The amount is verified by pay statements. The automobile payment must be added to the liabilities and included in the

Applicant's debt-to-income ratio while the full amount of the automobile allowance is added to the qualifying income. Income is calculated via one of the following:

- Only the amount by which the Applicant's automobile allowance or expense account payments exceed actual expenditures may be considered income.
- If the Applicant uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income
- Expenses that must be treated as recurring debt include:
  - The Applicant's monthly car payment; and
  - Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance
- Applicant must provide Employer verification that the payments will continue.

### **Disability Income**

Disability income may be included as qualifying income provided the Applicant's current eligibility including the amount and terms of the disability payment income is verified through a copy of the awards letter, or other verification provided by: the employer, insurance company, or government agency (e.g., Social Security Administration, Department of Veterans Affairs).



Luxury Mortgage Corp. may not request any medical documentation or make any inquiry regarding the nature of the disability or its duration. Any discussion regarding an Applicant's disability should be limited to a request for the above-required documentation.

### **Foster Care Income**

Foster care income may be included as qualifying income provided: proof of receipt for the previous 24 months and the income for providing foster parent care services to foster children is paid to the Applicant by a governmental agency and is verified by copies of checks or copies of contracts/agreements with the governmental agency.

### **Housing Allowance**

In some cases, Applicants may be able to use certain housing allowances (such as military and clergy) as qualifying income provided:

- the housing allowance has a history of being a part of the historical salary,
- the amount of the allowance must be verified in writing by the employer, and
- there is proof of receipt of the income for the most recent 12 months. This requirement is only for non-military housing allowance.
- In some instances, this income is non-taxable (such as clergy) – If documented as non-taxable via most recent two years tax returns, the non-taxable portion may be grossed up by 1.25% for qualification purposes

### **Asset Distributions not related to retirement**

In situations when applicant(s) evidence significant amount of financial assets, and can provide verification supporting that regular monthly distributions have been set up prior to application date, LMC will allow this income to be used to qualify for the loan provided following conditions are met:

- Subject property must be Owner Occupied or Second home,
- Applicant(s) can provide supporting documentation verifying ownership of financial assets for minimum of 2 years and have unrestricted access,
- Distribution Income derived from financial assets must be stable with a reasonable expectation that distributions can continue for a minimum of three years.
- Annualized distributions may not exceed 10% of total account balance
- Distribution income cannot be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the next three years,
- Assets used to derive income (distributions) cannot be used for reserves or down payment.
- Distributions must commence prior to application date
- The borrower must receive at least one distribution prior to closing

Distribution income from financial assets must be verified by providing all of the following:

- Year-end statements for most recent 2 years to evidence ownership and value of the assets,
- Written verification from the financial institution managing the assets to evidence that regular monthly distributions have been set up. It must provide amount, frequency and duration of distributions.
- Note: Annualized distributions may not exceed 10% of total account(s) balance. If distributions have been received for previous two years and are taxable, must provide copies of most recent tax returns with all schedules.

### **Retirement/Pension Income**

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k)'s, will cease within the first full three years of the mortgage loan, such income may not be used in qualifying.

Retirement/pension income and retirement assets that have been set up for regular distribution payments can be used as qualifying income. Regular distributions from retirement assets must be set up prior to application date. Retirement income, pension income and distributions from retirement assets must be verified using one of the following options:

- written verification from the financial institution holding the assets/organization/company supplying the income which must confirm the amount, frequency, and duration of the distribution,
- copy of most recent award letter,
- copies of the most recent 12 months check stubs evidencing consistent receipt of the income,
- copies of the most recent 12 months bank statements that verify receipt of the direct deposit,
- most recent 2 years 1099 tax forms, or
- most recent 2 years personal tax returns.

## Social Security Income

Social Security income must be verified by the Social Security Administration or on Federal tax returns. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Social Security income can be used as qualifying income provided the income is verified via one of the following:

- a copy of the Social Security Administration Award Letter,
- 12 months bank statements that verify receipt of the benefits via direct deposit,
- 12 months most recent check stubs,
- most recent 2 year's 1099 tax forms, or
- most recent 2 year's personal tax returns. Social Security income is found on the front page of the personal tax return.
- Non-taxable Social Security benefits may be grossed up by 1.25% for qualification purposes

The following suffixes to the social security number will indicate what type of social security benefit is being received:

### Description

- Disability or retirement benefit
- The person is still alive and the spouse is receiving the benefit
- Child beneficiary
- The person is deceased, and the surviving spouse is receiving the benefit

## Unemployment Compensation

Unemployment compensation (such as that received by seasonal workers) may be considered as acceptable stable income provided it is properly documented, has been received for the past two years, and is predictable and likely to continue. Unemployment income is found on the front page of the personal tax return.

## Veterans Benefits

Veterans benefits, other than educational assistance, can be included as qualifying income provided the income is verified via one of the following: a letter or distribution form or a Statement of Earnings from the Department of Veterans Affairs (VA).

- Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided that Luxury Mortgage Corp. obtained documentation from the VA.
- Education benefits used to offset education expenses are not acceptable.

## Other Income

Other income sources, whether taxable or non-taxable, must be verified unless otherwise indicated in the specific Product Profile. Non-taxable income should be distinguished from non-reported income as non-taxable income sources are not taxed, the "value" to the Applicant is greater. Unless otherwise noted, all non-taxable income sources may be grossed up by a factor of 1.25 provided the non-taxable status of the income is verified.

All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue to be received for a minimum of three years. Provided there is no evidence that the income source will cease within the next three years, it can be reasonably assumed that the income will continue. In no case can income be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the next three years.

## Unacceptable Sources of Income

- Unverified income
- Temporary income or one time occurrence
- Retained Earnings
- Educational Benefits
- Trailing Spouse/Co Applicant income
- Gift Income
- Income may not be used in calculating the Applicant's income ratios if it comes from any source that cannot be verified, is not stable or will not continue.
- Income and income sources not meeting requirements of Appendix Q
- Non-reported income (also known as undocumented income) **cannot** be used as a qualifying income source. Gift income, even if received on a regular and on-going basis, is **not** eligible income.
- Income derived from Medical Marijuana dispensaries or any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.

## SECTION 8: ASSETS AND LIQUIDITY

Asset documentation is required to evidence funds needed to cover down payment and other related closing costs as well as satisfy the reserve requirements per program guidelines. Not all types of funds are acceptable for each reserve requirement.

### Down Payment

On purchase transactions, Applicants must make the down-payment with funds from their own resources. Generally, all earnest money deposits must be fully documented including the source of the down-payment from the Applicant's account(s) and the evidence of transfer to the closing agent. Except where specified in a program guideline, Luxury Mortgage Corp. requires the Applicant(s) to make at least 10% of the down payment from their own funds. Co-mingled assets (Business and Personal) are allowed. Refer to business Assets Section.

### Reserves

Reserves are liquid or near liquid assets that are available to Applicant post-closing of the mortgage loan. Reserves are calculated using the qualifying payment and are measured by the number of months of monthly housing expense. PITIA includes:

- Principal and Interest
- Real Estate Taxes
- Homeowner's Insurance (Hazard, Flood, etc.)
- Ground Rent
- Special Assessments
- Owner's Association Fees
- Payments for Subordinate Financing

### Reserve Requirements

Luxury Mortgage Corp. requires the following post-closing reserves:

Loan Amount	Months PITIA Reserve Requirement
\$647,201 - \$1,000,000	9 Months
\$1,000,001 - \$1,500,000	12 Months
\$1,500,001 - \$2,000,000	18 Months

Additional Reserve	PITIA Reserve Requirement
Additional residential property listed on the application	6 Months for that <b>property</b>
Second Home	6 Months
Investment Property	6 Months
Payment Shock > 100% not caused by a reduction in term or a change from ARM to fixed or IO to Amortizing	6 Months

### Assets

#### Annuities

The cash value of an Annuity is an acceptable source for funds needed to close or for Reserve requirements and is defined as 70% of the stated value of the Annuity, net of any loans.

#### Borrowed Funds - Secured

Borrowed Funds from a secured loan may be used as a source of closing funds. Borrowed Funds **may not** be used to calculate Reserve requirements. In order to utilize Borrowed Funds:

- The loan must be secured by an asset already owned by the Applicant (e.g., CDs, marketable securities, other real estate, life insurance policies, and retirement accounts);
- The terms of repayment for the loan and the secured nature of the loan must be verified by obtaining a copy of the note;
- The value of the remaining asset must be reduced by the amount of the secured loan balance

## Bridge Loan Proceeds

Bridge loans secured by other real estate owned by the Applicant will be acceptable in meeting required closing-fund requirements. The bridge loan must be recorded on the bridge-loan security. If not recorded, at minimum, the bridge loan must be in recordable form. A copy of the bridge loan note or a commitment letter from the bridge-loan correspondent that reflects the following is required:

- The amount of the bridge loan (the amount cannot exceed the equity in the bridge-loan property)
- The term, maturity date, and renewal provisions
- All required payments on the bridge loan
- Description of the bridge loan security (property address of the bridge-loan security)
- The bridge loan cannot be cross-collateralized against the new property
- Luxury Mortgage Corp. must document the Applicant's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations
- Documentation of receipt of the funds

## Business Assets

Luxury Mortgage Corp. requires 3 months business bank statements. Cash from a business account may be acceptable provided the cash is not required to service the business' current liabilities. These funds may be eligible on loans where the Applicant can evidence that the withdrawal of the funds will not impact the operation of the business. Additionally, the qualification of the business assets would be restricted to the percentage of ownership interest the Applicant has in the business.

In addition, if the Applicant is not the sole shareholder, they must furnish a letter from a partner or corporate officer of the business stating that the funds may be used in the proposed transaction.

At the underwriter's discretion documentation may be required from a disinterested third party (CPA, Tax Attorney, etc.) confirming the Applicant's vested interest in the business and that the use of these funds will not adversely affect the business.

Business funds can be used for Cash-to-Close, Reserves and Down Payment

Examples of own funds can be:

- Schedule C Applicant where the personal assets are co-mingled with business assets
- Corporation or LLC accounts where the Applicant is 100% Owner and use of the funds will not adversely affect the business. (Cash-flow analysis for latest 3 months Bank Statements is required)

## Checking, Savings, or Share Accounts

Funds held in a checking or savings or share accounts (credit unions) may be used for the down payment, closing costs, and financial reserves. Luxury Mortgage Corp. will investigate any indication of borrowed funds such as recently opened accounts, recent large deposits, or account balances that are considerably greater than the average balance over the previous few months. Luxury Mortgage Corp. will require a written explanation of the source of funds from the Applicant and must verify the source of funds. The funds must be U.S. dollar deposits in institutions located in the U.S.

## Proceeds from a Cash-out Refinance

Cash-out Proceeds from the refinance of other property owned by the Applicant is an acceptable source for down payment, closing costs and reserves. The Closing Disclosure or equivalent settlement statement and proof of deposit is required.

## Cash Surrender Value of Life Insurance

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are acceptable sources of funds for the down payment, closing costs, and reserves. Luxury Mortgage Corp. will assess repayment or additional obligation considerations to determine the impact on Applicant 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 an Applicant's life insurance policy do not have to be considered in the total debt-to-income ratio.

Cash Surrender Value of Life Insurance is an acceptable source of funds. Generally, the two most recent statements that clearly indicate the cash-surrender value of the life insurance policy must be reviewed, and if used for funds to close, document the receipt of funds.

## Certificates of Deposit (CD)

Certificates of Deposit are an acceptable source of funds for down payment, closing costs and reserves. Funds must be U.S. dollar deposits in institutions located in the U.S.

## Custodial Accounts for Children or Others

Custodial accounts for children or others are an acceptable source of funds for down payment, closing costs and reserves. 529 Accounts are **not** acceptable.

## Foreign Deposit

Funds that are on deposit in institutions located outside the United States or non-U.S. denominated funds in a deposit institution located in the U.S are considered foreign deposits. These deposits can be subject to exchange-rate risk and country risk. The use of foreign deposits for down payment, closing funds and reserves requires that:

- Proof the transferred funds belonged to Applicant(s) prior to transfer,
- Funds must be transferred into a U.S. bank/deposit account, and
- Proof of wire transfer must be documented in the file

## Gift Funds

An Applicant of a mortgage loan secured by a principal residence may use funds received as a personal gift from an acceptable donor as a source of funds to close. Gift Funds may fund part of the down payment, closing costs subject to the minimum Applicant contribution requirements below. The gift donor must be a relative. A relative is any person related by blood, legal proceedings, marriage, or adoption and also includes a fiancé, fiancée or domestic partner. Gift funds from an employer may be acceptable on a case by case basis. Gift funds may not be used for reserves.

Gifts Funds are an eligible source of down payment and/or closing costs for a Purchase of a primary residence or second home provided:

- For purchase transactions, the Applicant must invest at least 10% of the purchase price from his/her own funds.
- The gift donor must be a relative. A relative is any person related by blood, legal proceedings, marriage, or adoption and also includes a fiancé, fiancée or domestic partner,
- The gift donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction,
- The Gift Funds must be transferred to the Applicant. Documentation, such as one of the following, is required to evidence

Gift Funds are either in the donor's account or have been transferred from the donor's account to the Applicant:

- A copy of the donor's check and the Applicant's deposit slip
  - A copy of the donor's withdrawal slip and the Applicant's deposit slip
  - A copy of the donor's check to the closing agent, or
  - A settlement statement showing receipt of the donor's check
- Information related to the donor and gift are provided in an executed "gift letter" provided by the donor that specifies:
    - The name and address of the receiving party
    - The name and address of the donor party
    - The donor's relationship to the Applicant/receiving party
    - The dollar amount of the gift
    - A statement from the donor that no repayment is expected
    - The property being financed
    - The date the funds were (or will be) transferred

## Gift of Equity

Gift of Equity refers to a gift provided by the seller of a property to the buyer. A Gift of Equity represents a portion of the seller's equity in the property which is transferred to the buyer as a credit in the transaction. Must meet Non-Arm's Length transaction requirements.

- A Gift of Equity is permitted for principal residence purchase transactions only. The sales price for the property must reflect current market rate transactions. The gift donor must be a relative. A relative is any person related by blood, legal proceedings, marriage, or adoption and also includes a fiancé, fiancée or domestic partner,

Gift of Equity is an eligible source of down payment and/or closing costs provided:

- The Applicants have contributed at least 10% of their own funds to the transaction;
- The gift is evidenced by a letter signed by the donor that:
  - Specifies the property being purchased,
  - Includes the donor's statement that no repayment is expected, and
  - Indicate the donor's name, address, phone number, and relationship to the Applicant.
- The Gift of Equity must appear on the Closing Disclosure.
- Verification that the Gift of Equity was received by the Applicant at closing.

## Marketable Bonds and Securities

Marketable Securities such as stocks, government bonds, and mutual funds (net of maximum margin loan amount, if any) are acceptable sources of funds for down payment, closing costs, and reserves provided their value can be verified. Luxury Mortgage Corp. must verify the Applicant's ownership of the account or asset, the value of the asset at the time of sale or liquidation, and the Applicant's actual receipt of funds realized from the sale or liquidation of the assets if the stocks, stock options, bonds, and mutual funds will be used for the down payment or closing costs. Marketable Securities must be traded on a major market exchange (e.g., NYSE, AMEX, NASDAQ) where market activity and valuation can be readily determined.

Marketable Securities can be used for closing funds at 100% of the verified market value as long as evidence of liquidation is verified. Marketable Securities can be used for reserves at 70% of verified market value.

## Stock Options - if Exercisable

Vested Stock Options are an acceptable source of funds for down payment and closing costs if they are immediately available to the Applicant. Vested Stock Options are acceptable for reserves at 70% of the current market value limited to the strike price value. The value of vested Stock Options can be documented by referencing a statement that lists the number of options and the option price and using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.

If the brokerage firm or fiduciary that negotiated the execution of the Stock Options did not deduct income taxes from the net proceeds, Luxury Mortgage Corp. must ensure that the Applicant will not suffer severe cash flow or liquidity problems when the taxes come due.

Non-vested Stock Options are **not** an acceptable source of funds for the down payment, closing costs, or reserves.

## Proceeds from sale of Applicant's Assets

Proceeds from the sale of Applicant's assets are an acceptable source of funds for down payment, closing costs and reserves on a case-by-case basis. Luxury Mortgage Corp. must verify documentation of the sale.

## Proceeds from sale of Real Estate

Proceeds from the sale of Real Estate are an acceptable source of funds for closing-fund requirements and cash reserve calculations. The closing of the other real estate transaction must take place prior to or simultaneous with the subject closing and the net proceeds to the Applicant must be verified via a fully-executed Closing Disclosure or equivalent settlement statement.

## Relocation Benefits

When the Applicant's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, Luxury Mortgage Corp. will require a copy of the executed buyout agreement to document the source of funds. To utilize Relocation Benefits paid by an employer to an Applicant for closing fund requirements:

- A copy of the executed buy-out agreement to purchase the existing residence must be provided,
- Any closing costs and points that may be included in the relocation package can be used. However, the Applicant must provide funds for prepaid items unless specifically stated in the relocation package,
- At closing, a copy of the fully executed settlement statement must be provided as evidence of sale and release from liability.

If the conditions above are met, the PITI on the existing residence can be eliminated from the debt-to-income ratio analysis.

## Repayment of a Loan

A lump sum repayment of a loan can be used as an asset for down payment, closing costs and reserves provided the initial loan and the repayment can be verified and documented.

## Retirement Accounts

Vested funds from Individual Retirement Accounts, Annuities, (IRA/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves.

Luxury Mortgage Corp. must verify the ownership of the accounts and the Applicant's actual receipt of the funds realized from the liquidation of the assets, if needed to complete the transaction. When funds from retirement accounts are used for reserves, we do not require the funds to be withdrawn from the account(s). However, we will exercise caution when considering retirement accounts for reserves because the accounts often feature significant penalties for early withdrawals, allow limited access, or have vesting requirements. Retirement accounts that do not allow any type of withdrawal or have restrictions for withdrawal may **not** be considered.



If the Retirement Account only allows withdrawal based on the Applicant's employment termination, retirement (unless the Applicant is of retirement age), or death, Luxury Mortgage Corp. will **not** consider the vested funds as effective reserves.

Retirement Accounts without restrictions for withdrawal may be included in the reserves or funds to close requirements as indicated above. For reserve purposes utilize 70% of the vested amount minus any outstanding loans and/or funds liquidated to complete the transaction.

### Trust Account Funds

Funds from an Applicant's Trust Account are an acceptable source for the down payment, closing costs, and reserves provided the Applicant has immediate access to the funds.

Luxury Mortgage Corp. must obtain written documentation of the value of the Trust Account from either the trust manager or the trustee and document the conditions under which the Applicant has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the Applicant for the mortgage.

Trust Certificates are acceptable in lieu of the full trust in states where it is customary.

### Unacceptable Assets

- Borrowed Funds - Unsecured - Unsecured loans, unsecured credit lines, advances against overdraft protection, or advances against credit cards or lines are **not acceptable** sources for funds needed to close or for reserve requirements.
- Cash on Hand - Generally, cash on hand is **not** an acceptable source of funds.
- Non-marketable Securities - Non-marketable Securities are not traded on a major stock market exchange, and their valuation and market value cannot readily be obtained. Generally, non-marketable securities (stocks and bonds) are **not** used to calculate cash reserve requirements.
- Sweat Equity (Work Equity) - Generally, sweat equity is not an acceptable source of funds for the down payment, closing costs, or reserves, since it is difficult to accurately assess the contributory value of sweat equity work.
- Restricted Securities - Generally, Restricted Securities are **not** an acceptable source of funds. Restricted Securities cannot be readily traded due to Rule 144 and Security and Exchange Commission (SEC) regulations.
- Non-vested Stock Options - Non-vested Stock Options are **not** an acceptable source of funds for the down payment, closing costs, or reserves.
- Bitcoin or other cryptocurrency **is not considered an acceptable source of funds/asset**
- Seller second mortgages (carry backs) not allowed.
- Any asset derived from any marijuana related business is not considered acceptable funds.



## SECTION 9: LIABILITIES

Luxury Mortgage Corp.'s credit risk analysis must include any liabilities that may affect income or assets that will affect the Applicant's ability to fulfill their mortgage payment obligations. An Applicant's liabilities include but are not limited to the following:

- Housing expense on the Applicant's principal residence, all revolving charge accounts,
- Installment loan debts with a remaining payment term greater than 10 months, if debt payments change the DTI ratio more than 10 points the debt must be included;
- Lease payments,
- Real estate loans,
- HELOCs,
- Non-reimbursed employee expenses,
- Alimony and child support,
- Maintenance payments, and
- All other debts or financial obligations of a recurring nature.

For each liability, Luxury Mortgage Corp. must determine the unpaid principal balance, the terms of repayment, the Applicant's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the Applicant or creditor.

If the credit bureau report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans—Luxury Mortgage Corp. must document separate credit verification.

If a current liability appears on the credit bureau report that is not shown on the loan application, the Applicant will be required to provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the Applicant's explanation.

If the Applicant discloses, or Luxury Mortgage Corp. discovers additional liabilities after the underwriting decision has been made, up to and concurrent with closing, Luxury Mortgage Corp. will recalculate the Applicant's debt-to-income ratio for loan closing qualification.

### Obligations

- Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included as anticipated monthly obligations during the underwriting analysis.
- Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

### Obligations Not Considered Debt

Obligations not considered debt, and therefore not subtracted from gross income, include:

- Federal, State, and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Automatic deductions to savings accounts;
- Child care; and
- Voluntary deductions.
- Utilities

### Alimony/Child Support Maintenance Payments

Child support/ Separate maintenance payments: will be included in the recurring debt total if there are more than 10 payments remaining. If the divorce decree or other acceptable documentation states payments will cease within 10 months the payment may be excluded. Verification clearly defining the Applicant's responsibility must be obtained including copies of the mentioned below documents.

Alimony payments: Luxury Mortgage Corp. has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If Luxury Mortgage Corp. exercises this option, a copy of the below documents must be obtained and retained in the file confirming the amount and duration of the obligation:

- The divorce decree,
- A signed separation agreement,
- A notarized agreement signed by all parties and their respective attorneys,
- The court order, or
- Other legally accepted evidence dictated by local custom.

## Business Debt in Applicant's Name

When a self-employed Applicant claims that a monthly obligation that appears on his or her personal credit report is being paid by the Applicant's business, Luxury Mortgage Corp. must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the Applicant's business.

The account payment does not need to be considered as part of the Applicant's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks or bank statements),
- Luxury Mortgage Corp.'s cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the Applicant's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds,
- If the business provides acceptable evidence of its payment of the obligation but the cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense and taxes and insurance, if applicable are equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan) and it is reasonable to assume that the obligation has not been accounted for in the cash flow analysis,
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, Luxury Mortgage Corp. may adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question

## Sole-Proprietor Debt

- Luxury Mortgage Corp. will keep in mind that "business" debts for a sole proprietor are usually indistinguishable from personal debts. The most obvious cases are autos that are utilized as business vehicles and for which the corresponding debt is written off as a business expense. The outstanding balance of the sole-proprietor's business debts should be reflected on the Applicant's personal financial statement or 1003. The business debt payments (principal **and** interest) must be addressed in the following manner
  - If the Applicant has provided sufficient evidence the business is paying the debt, for example a minimum of the most recent 12 months cancelled checks from the business owned checking account or Schedule C (from tax returns) showing related business expense deductions then the debt can be excluded from the recurring monthly debt obligation.
  - If the Applicant has not provided evidence that the business is paying the debt, then the debt is included in the recurring monthly debt obligation of the Applicant.

## Court-Ordered Assignment of Debt

When an Applicant has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the Applicant from liability, the Applicant has a contingent liability. The Liability does not need to be considered as part of the Applicant's recurring monthly debt obligation if Luxury Mortgage Corp. can verify through executed copy of Divorce Decree and Settlement agreement that debt assigned to another party who is fully responsible for repayment of that debt.

## Co-Signed Loans

When an Applicant co-signs for a loan to enable another party (the primary obligor) to obtain credit—but is not the party who is actually repaying the debt—the Applicant has a contingent liability. The liability does not need to be considered as part of the Applicant's recurring monthly debt obligations if Luxury Mortgage Corp. can verify a history of documented payments on the co-signed debt by the primary obligor of the loan and ascertain that there is not a history of delinquent payments for that debt (since this could be an indication that the co-signer might have to assume the obligation at some point in the future).

Generally, the primary obligor of the loan should have been making payments on the debt for at least 12 months (although shorter payment histories may be considered on a case-by-case basis). The liability does need to be considered as part of the Applicant's recurring monthly debt obligations if: payment by the primary obligor cannot be sufficiently documented, a sufficient payment history has not been established for the debt, or the primary obligor has a history of being delinquent in making payments on the debt.

## Deferred Installment Debt / Student Loans

Deferred Installment Debts, such as deferred student loans, must be included as part of the Applicant's recurring monthly debt obligations. If the Applicant's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, Luxury

Mortgage Corp. must obtain copies of the Applicant's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the Applicant's total monthly obligations.

Exception: For a student loan, in lieu of obtaining copies of payment letters or forbearance agreements, originator can calculate a monthly payment using 1% of the outstanding balance as the Applicant's recurring monthly debt obligation. However, if any documentation is provided by the Applicant or obtained by Luxury Mortgage Corp. that indicates the actual monthly payment, that figure must be used in qualifying the Applicant.

## Loans Secured by Financial Assets

When an Applicant uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the Applicant has a contingent liability. Luxury Mortgage Corp. is not required to include this contingent liability as part of the Applicant's recurring monthly debt obligations provided that Luxury Mortgage Corp. obtains a copy of the applicable loan instrument that shows the Applicant's financial asset as collateral for the loan. If the Applicant intends to use the same asset to satisfy financial reserve requirements, Luxury Mortgage Corp. will reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the Applicant has sufficient reserves.

Payments on loans that are secured by an Applicant's specific liquid financial assets, such as life insurance policies, 401 (k)/IRA accounts, CDs, stocks, bonds, marketable securities, etc. may be excluded from the DTI calculation in those circumstances where the repayment of the loan rebuilds the financial asset and the current verified balance in the account (or value of the financial asset) is sufficient to fully payoff the loan.

Payments on loans secured by real estate or other personal property must always be included in the DTI ratio. A copy of documentation that shows the following is required:

- The asset as collateral for the loan,
- The interest rate and payment,
- The loan amount,
- The loan secured by the financial asset was made by a financial institution

## Margin Debt

A loan secured by the marketable securities in the Applicant's brokerage accounts is considered a margin loan. As the margin account can be matched with a specific asset conversion, it is not necessary to debt service the margin account provided. An amount equal to the margin loan balance must be subtracted from the Applicant's marketable security total and excluded from the Applicant's cash reserve and income calculations.

## Unsecured Lines of Credit

Personal unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the Applicant's recurring monthly debt obligations. If the credit report does not show a required minimum payment amount, 5% of the outstanding balance will be used as the Applicant's recurring monthly debt obligation.

## Payoff or Pay down of Debt for Qualification

Payoff of revolving debt or pay down of installment debt to 10 months or less for qualification purposes is not allowed. Auto leases regardless of remaining term are always included. Installment loans may be paid off and closed prior to close, from borrower's own funds to qualify.

## Collections, Charge-Offs, Judgments, Garnishments, and Liens

Delinquent credit—including taxes, judgments, charged-off accounts, tax liens, mechanics' or material men's liens, and liens that have the potential to affect lien position or diminish the Applicant's equity—must be paid off at or prior to closing.

## Contractual Payments

For Applicants involved with certain investments or other business entities (e.g., business partnerships), Luxury Mortgage Corp. will take into consideration contractual obligations that are **not** apparent or reflected on the credit report (e.g., required capital distributions, negative capital account, loans to owner/stockholder, etc.) that could impact the Applicant's cash flow and debt service as appropriate.

## Credit Cards

For revolving accounts/credit cards, the balances and payments that are reported on the credit report are used. If no payment appears on the credit report, Luxury Mortgage Corp. will utilize a payment calculated at the greater of 5% of the outstanding balance or \$10 to be included in the DTI calculation. If the actual monthly payment is documented from the creditor or the creditor obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.

If an Applicant's business expense account is reported on the credit report, Luxury Mortgage Corp. will require a statement from the employer that all business expenses are paid by the company. Luxury Mortgage Corp. must include the monthly payment in the Applicant's DTI calculation, if the debt is not paid by the company.

## Home Equity Lines of Credit (HELOC)

Luxury Mortgage Corp. will utilize the payment reflected on the credit report. If no payment is reflected and there is an outstanding balance, Luxury Mortgage Corp. will use .5% of the outstanding balance amount to determine the HELOC monthly payment used for debt ratio calculations.

## Home Equity Loans

A second mortgage must be debt serviced with the actual loan payments.

## Investment Gains/Losses

Any net recurring cash investment or investment property loss should be amortized and included as an expense.

## Lease Payments

Lease Payments must be included regardless of the remaining term. At the end of the lease term, the Applicant will be faced with either a buyout of the lease (purchase of the car), or new lease contract obligation.

## Non-Real Estate Lines of Credit/Balloon Loans/Interest Only Loans

The actual (verified) monthly payments for these loans must be included in the qualifying debt ratio calculation, regardless of the number of payments remaining.

## Mortgage Debt

Prudent judgment should be exercised in evaluating the debt service of first/second mortgage payments on all real estate holdings. If a payment appears to represent an interest-only payment or below-market ARM payment, due diligence, in the form of a verification of mortgage, comparable documentation, or adequate analysis should be exercised to confirm whether adequate debt service has been calculated.

## Treatment of CARES Act related forbearance(s) – *applicable to all mortgage accounts*

To be eligible for financing, all CARES Act related forbearance(s) must be resolved.

- If the mortgage account(s) was/were placed in a forbearance status and the borrower continued to make payments and the account(s) is/are in good standing, Luxury Mortgage Corp. must obtain a verification(s) of mortgage (VOM) to evidence that the forbearance status has been lifted and the account(s) is/are in good standing.
- If the mortgage account(s) was/ were placed in a forbearance status and the mortgage payments were placed in deferment, the account(s) must be brought current either through the payment of arrearage, payment plan or modification.

Additionally, to be eligible for financing, the borrower must exhibit satisfactory mortgage payment history for at least 6 months post the deferment/modification event and prior to the loan's application date. Luxury Mortgage Corp. must obtain, in addition to current credit report, VOM(s) to evidence that the account(s) is/are in good standing.

## Relocation Benefits

The PITI on the existing residence can be eliminated from the debt-to-income ratio analysis in a relocation situation if **all** the following conditions are met:

- A copy of the offer to purchase the existing residence must be provided,
- Any closing costs and points that may be included in the relocation package can be used as closing funds. However, the

- applicant must provide funds for prepaid items unless specifically stated in the relocation package,
- At loan closing, a copy of the equity advance or a settlement statement must be provided as evidence of sale and release from liability.

## Taxes and Insurance

The actual monthly amount of taxes, insurance, homeowners association (HOA) fees, and special assessment fees should be included in the DTI. In purchase money transactions where there is not definite indicators of taxes and insurance, Luxury Mortgage Corp. will use 1.5% of the purchase price as the total annual burden and pro-rate this on a monthly basis.

## SECTION 10: CREDIT AND RISK SCORE

Luxury Mortgage Corp. requires a tri-merged credit report and Credit Risk Score (CRS) for each Applicant on the loan application. The credit report must be based on data provided by a national credit reporting repository. The value in a credit report is not limited to providing evidence of a payment history - it also provides historical information of an Applicant's "use" of credit. There are presently three major credit reporting repositories: Equifax; Experian; Trans Union.

A satisfactory repayment history is a requirement on all loans and is not considered a compensating or mitigating factor to offset weaknesses in other areas of the Applicant's credit profile. The Applicant's credit history generally should reflect a history of meeting payments according to the terms and conditions of the credit obligation and a sufficient history to establish a favorable repayment pattern.

### Credit Report

The credit report(s) must reveal payment history indicating any 30-, 60- or 90-day past due payments. If conflicting information is reported, the most recent "date reported" information should be used. The credit report must include, but is not limited to full name, address, telephone number of the reporting agency, and the names of the national repositories that the agency used to provide information for the report. Luxury Mortgage Corp. will obtain a credit report for each Applicant. Re-issued credit is not acceptable.

### Credit Risk Score (CRS)

CRS provides Luxury Mortgage Corp. with the relative probability of default on a loan request for an Applicant. The CRS used by the three national credit repositories (Equifax; TransUnion; Experian) produce a value that represents the relative odds that an extended loan will default. The higher the CRS, the less likely it is that the loan extended to the Applicant would default. Although Applicants with low CRS represent a relatively small percentage of all Applicants, findings validate that they account for a disproportionate percentage of eventual default.

A CRS must be requested for each Applicant, whether the Applicant is employed or not, and obtained from each repository used in the compilation of the credit report data, regardless of the type of credit report obtained.

### Acceptable Credit Risk Score (CRS)

CRS are considered acceptable if they are generated by trade lines directly related to the Applicant. Credit scores generated through "authorized user" or business accounts are not acceptable.

### Credit Risk Score (CRS) Selection

A single "representative" CRS will be selected from the scores reported on the submitted report(s), based on the following guidance:

- Determine each Applicant's representative score
  - If three (CRS) are reported the middle score for each Applicant is used,
  - If two (CRS) are reported the lower score for each Applicant is used,
  - One (CRS) is not acceptable
- Use the lowest remaining score of each Applicant

### Score Less than Required

CRS less than product or program requirements are exceptions to Luxury Mortgage Corp.'s underwriting guidelines and must be approved by Luxury Mortgage Corp. prior to closing.

### Minimum Trade Line Requirement

The Applicant's credit report should include a credit history that meets the following minimum trade line requirements. Each Applicant must have a minimum of 3 trade lines with at least 2 active trade lines (active is defined as last activity date less than or equal to 12 months from the current date) with 12 months satisfactory history, on each trade line and a minimum 24 month credit file history.

### Inquiries

Careful consideration must be given to determine if numerous inquiries reported on the credit bureau report require an explanation from the Applicant and/or an investigation to uncover if any new credit obligations resulted from the inquiries. A letter of explanation must be requested for inquiries less than 90 days old when there is not a corresponding trade line on the credit report or mortgage application. If credit resulted from the inquiry, it must be verified, and the obligation included in the qualifying debt ratio calculation.



## Treatment of Medical Collection

Luxury Mortgage Corp. will evaluate derogatory information related to medical debts in relation to the overall picture presented by the rest of the loan file. An exception may be made, if a collection is medical in nature or in dispute and can be properly documented. In no event should there be a solicitation of information regarding the nature of illness or disability, course of treatment, or the future health expectations of the individual related to incursion of the debt. Any medical information, even if unsolicited, should not result in any less favorable treatment.

## Applicant Credit Counseling

Case by Case

## Fraud Alert / Identity Theft Red Flags

In an effort to combat fraud and identity theft, Luxury Mortgage Corp. will be diligent in recognizing potential red flags. Red Flags that may be identified during review of the credit bureau include, but are not limited to:

- Fraud Alert (underwriter must ensure that the applicant(s) has applied for the loan)
- Active Duty Alert,
- Credit Freeze,
- Report of address discrepancy,
- recent and significant increase in the volume of inquiries,
- unusual number of recently established credit relationships,
- material change in the use of credit, especially with respect to recently established credit relationships,
- account(s) that were closed for cause or identified for abuse of account privileges by a financial institution or creditor.

## Rental /Housing Reference

A satisfactory verification of rent payment history is required on all renters for the past 24 months regardless of the Applicant's credit score. Verification can be done by one of the following methods:

- When renting from a company managed property, direct written verification from the management company that includes: rental amount; payment history; length of payment history; landlord's contact information (name, address, and telephone number); verification via an Credit supplement where the credit reporting agency directly verified the rental history with the landlord's management agency,
- When renting from individual managed property, review front and back copies of canceled checks (or equivalent) for the last 24 months payments, and a copy of the lease (if available).

## Mortgage Payment History

The mortgage payment history can be verified via the credit report. The Applicant's payment history is generally considered to be unacceptable if, there is one or more thirty (30) day delinquency on any mortgage or primary housing debt in the past 24 months.

If history is not on credit report	24 month history must be verified
If history is verified by rent only	12 month history must be verified
	However, if there is a partial history on credit and rental payments then the total of the histories must be 12 months. (For example, if 6 months are verified on credit then we would need 6 months' rent to meet the 12 month requirement.)

Often, Home Equity Lines of Credit (HELOCs) are reported as Revolving Lines or Unsecured Lines on credit bureau reports.

Any Revolving Line or Unsecured line in the amount of \$50,000 or more with a repayment term of more than or equal to 120 months shall be considered a mortgage trade line for credit review purposes (unless documentation is in the file to indicate otherwise). Mortgage rating must be through funding.

The mortgage payment history can also be verified using one of the following:

- Completed and executed Verification of Mortgage form;
- Statement from servicer on its letterhead;
- 24 Months cancelled checks or Bank Statements;



- Private mortgage holders require copy of executed note, and payment history must be verified via 24 months cancelled checks and/or bank statements.

## Modification of Existing or Prior Mortgage (Excluding CARES Act related)

When credit report reflects modified mortgage (s), Luxury Mortgage Corp. must provide proof that modification was not due to distressed situation. In addition, Luxury Mortgage Corp. must ensure that there was no debt forgiveness.

## Waiting Periods for re-establishment of credit

Foreclosure	A seven-year waiting period is required and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower to the loan's application date.
Short Sale	A seven-year waiting period is required and is measured from the completion date of the action as reported on the credit report or other document(s) to the loan's application date.
Deed-in-Lieu of Foreclosure	A seven-year waiting period is required and is measured from the completion date of the action as reported on the credit report or other documents to the loan's application date.
Bankruptcy	A seven-year waiting period is required and is measured from the discharge or dismissal date of the bankruptcy action to the loan's application date.

## Rapid Rescore

Rapid Rescore or Credit Supplements are not acceptable if the change from the initial credit report pertains to payoff OR pay down of revolving debt. They are acceptable for changes to initial credit report that correct errors in the report.

## Public Record Search

Luxury Mortgage Corp. is responsible for verifying all existing public records to ensure that there are no outstanding judgements or liens against all applicants. It is encouraged that additional tools available (Fraud Guard report, Lexis Nexis, reports, etc.) which leverage public, private and proprietary data sources that aid in assessing credit profile.

## SECTION 11: UNDERWRITING

### General Underwriting Policy

BankUnited takes a common sense approach to credit policy to ensure simplicity in the underwriting process. We recognize that not every loan falls within our credit guidelines and may deserve further consideration.

Luxury Mortgage Corp. will purchase 1-4 family mortgage loans that are QM Safe Harbor. In **all** cases, LMC will comply with the General ATR Option and the points and fee limitations defined in TILA<sup>1</sup>.

The General ATR Option consist of eight minimum underwriting considerations as defined below and requirements for verifying the information used to underwrite the loan. The eight ATR considerations are listed below. The General ATR Option consist of eight minimum underwriting considerations as defined below and requirements for verifying the information used to underwrite the loan. The eight ATR considerations are listed below.

- The consumer's current or reasonably expected income or assets, other than the value of the dwelling, including any real property attached to the dwelling, that secures the loan;
- If the creditor relies on income from the consumer's employment in determining repayment ability, the consumer's current employment status;
- The consumer's monthly payment on the covered transaction, calculated in accordance with these guidelines;
- The consumer's monthly payment on any simultaneous loan that the creditor knows or has reason to know will be made, calculated in accordance with these guidelines;
- The consumer's monthly payment for mortgage-related obligations;
- The consumer's current debt obligations, alimony, and child support;
- The consumer's monthly debt-to-income ratio or residual income in accordance with these guidelines; and
- The consumer's credit history.

Luxury Mortgage Corp. will underwrite loan applications using the definitions of "income" and "debt" and the other standards found in Appendix Q to 12 C.F.R., Part 1026 in all cases except where otherwise noted.

Luxury Mortgage Corp. is expected to document and verify two years' worth of income for each applicant. Luxury Mortgage Corp. must have reason to believe the income will continue for the first three years of the loan.

### Application

The underwriting process begins with a comprehensive review of the application for completeness and accuracy

- **Confirm - Loan Amount, Loan Purpose, Interest Rate, Term, Product Type, Repayment Type, Property Address, Property Type, Occupancy,**
- **Confirm Residence History**
- **Review Applicant name(s), birthdates, Social Security Number(s)** - Determine that they are accurate and match other documentation throughout the file, e.g., credit report, paystubs, tax returns, etc. – Any discrepancies must be acceptably addressed and documented.
- **Confirm all liabilities** - Validate all liabilities reflected on the credit report and from any other applicable source/documentation such as bank statements. A line of credit or alimony payments not reflected on the credit report should be considered in the final qualification of the loan.

### Income Documentation Requirements

- Confirm Applicant(s) monthly income has been properly calculated and documented
  - Salaried Employees – for salaried Applicants, at a minimum; Luxury Mortgage Corp. requires at least one paystub with current year-to-date earnings that covers the most recent 30 day period. A verbal VOE must be obtained within 5 days of the note date.
  - Commissioned Employees – for commissioned employees Luxury Mortgage Corp. requires paystubs covering the most recent 30 days, last two years' W-2s and/or 1099s and the last two years' executed personal tax returns. A verbal VOE is also required within 5 days of the note date.
  - Self-Employed Applicant(s) – for self-employed Applicants defined as an Applicant who has an ownership interest of 25% or more in a business the last two years' executed personal and business tax returns are required.
- Luxury Mortgage Corp. will require that all Applicant(s) execute an IRS Form 4506-C. Receipt of the IRS tax transcripts will be utilized to confirm the Applicant's income. Review all income documentation in order to determine if it is acceptable and supports the income being utilized to qualify for the loan – Paystubs must be computer-generated (not handwritten). They must clearly

identify the Employer, Applicant as the employee, reflect the time period covered and reflect the current income, including total year-to-date earnings. W-2 and 1099 Forms must be complete. Personal and Business Tax returns must be complete, containing all schedules and forms, including applicable K-1 Form(s) that reflect the percentage of ownership in the business.

- Confirm other income, consisting of alimony, child support, social security income, retirement benefits, etc., if applicable, being utilized to qualify for the loan, has been sufficiently documented and can reasonably be expected to continue for at least three years.

### **Purchase Contract (if applicable)**

- If the loan is a purchase, review purchase contract confirming Seller(s)/Purchaser(s), Property Address, Purchase Price. Confirm receipt of all pages to the contract, including all applicable addendums. Determine the sale is an Arm's Length transaction reflecting no relationship between the Seller(s)/Purchaser(s), or any other applicable third party to the transaction.
- Determine if there are any seller "financing" concessions. Seller contributions are allowed for Owner Occupied purchases maximum is 6% regardless of the LTV/CLTV. Investment Properties only to a maximum of 2%.
- Determine if there is any secondary financing being obtained that will be subordinated to the subject first; if so, confirm that the documentation required evidencing the secondary financing has been obtained. Seller second mortgages (carry backs) are not allowed.

### **Credit Report**

- An In-file credit report, Merged/joint merged credit report or a Residential Mortgage Credit Report (RMCR) is acceptable. Determine that CRS meet the applicable Luxury Mortgage Corp. guidelines for the loan being reviewed.

### **Appraisal**

Luxury Mortgage Corp. or Broker is responsible for selecting and engaging the appraiser. Luxury Mortgage Corp. is also responsible for reviewing and approving the appraisal using methods that are acceptable under the Interagency Appraisal and Evaluation Guidelines or appropriate industry convention.

The Due Diligence provider will review and confirm the completed appraisal is for the property securing the loan and order CDA when applicable. If two appraisals are required, the value used for qualification is the lower of the two and a CDA is not required.

If there is a significant variance in values (generally greater than 10%), Additional review will likely be required

### **Employment / Income Validation**

- The income of each Applicant who will be obligated for the mortgage debt must be analyzed to determine whether his/her/their income level can be reasonably expected to continue through at least the first three years of the mortgage loan.
- In most cases, an Applicant's income is limited to salaries or wages. Income from other sources can be considered as effective, when properly verified and documented
- Effective income for Applicants planning to retire during the first three-year period must include the amount of: Documented retirement benefits, Social Security payments, or other payments expected to be received in retirement. Luxury Mortgage Corp. may not ask the Applicant about possible, future maternity leave.
- **Confirm employment history** - Review length of time on current/previous job(s); determine the stability of the income being utilized to qualify. Stable monthly income is the Applicant(s) verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue.

### **Establishing an Applicant's Earnings Trend**

- When qualifying an Applicant for a mortgage loan, Luxury Mortgage Corp. must establish the Applicant's earnings trend from the previous two years.
- If an Applicant:
  - Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
  - Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.
- If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, Luxury Mortgage Corp. will base the income analysis solely on the income verified through the tax returns.
- If the Applicant's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the Applicant's most recent year's tax return or P&L must be used to calculate his/her/their income.

Income may not be used in calculating the Applicant's income ratios if it comes from any source that cannot be verified, is not stable, or will not continue.

Declining income should **not** be averaged, and an explanation for the decline should be obtained. The most recent lower income must be used for qualification purposes. Any significant increase in income should be adequately explained and documented.

### ***Income Analysis: Individual Tax Returns (IRS Form 1040).***

#### ***Guidelines for Analyzing IRS Form 1040***

The table below contains guidelines for analyzing IRS Form 1040:

<b>IRS Form 1040 Heading</b>	<b>Description</b>
Wages, Salaries and Tips	An amount shown under this heading may indicate that the individual: <ul style="list-style-type: none"> <li>• Is a salaried employee of a corporation, or</li> <li>• Has other sources of income</li> </ul> This section may also indicate that the spouse is employed in which case the income must be subtracted from the Applicant's adjusted gross income
Business Income and Loss (Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to the adjusted gross income
Rents, Royalties, Partnerships (Schedule E)	Any income received from rental properties or royalties may be used as income adding back any depreciation shown on Schedule E
Capital Gains and Losses (Schedule D)	Capital gains or losses generally occur only one time and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an earnings trend. If the trend: <ul style="list-style-type: none"> <li>• Results in a gain, it may be added as effective income, or</li> <li>• Consistently show a loss, it must be deducted from the total income.</li> </ul> Luxury Mortgage Corp. must document anticipated continuation of income through verified assets. Example: Luxury Mortgage Corp. can consider the capital gains for an individual who purchases old houses, remodels them, and sells them for profit.
Interest and Dividend Income (Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it: <ul style="list-style-type: none"> <li>• Has been received for the past two years; and</li> <li>• Is expected to continue</li> </ul> If the interest-bearing asset will be liquidated as a source of the cash investment, Luxury Mortgage Corp. will appropriately adjust the amount
Farm Income or Loss (Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-taxable portion of these items may be added back to the adjusted gross income if the income is expected to continue for the first three years of the mortgage
Adjustments to income	Adjustments to income may be added back to the adjusted gross income if they are: <ul style="list-style-type: none"> <li>• IRA and Keogh retirement deductions;</li> <li>• Penalties on early withdrawal of savings;</li> <li>• Health insurance deductions; and</li> <li>• Alimony Payments</li> </ul>
Employee Business Expense	Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.

### ***Analyzing the Business's Financial Strength:***

- To determine if the business is expected to generate sufficient income for the Applicant's needs, Luxury Mortgage Corp. will carefully analyze the business's financial strength, including the:
  - Source of the business's income;
  - General economic outlook for similar businesses in the area.
  - Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable.

### ***Income Analysis: Corporate Tax Returns (IRS Form 1120).***

A corporation is a State-chartered business owned by its stockholders.

- Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:
  - Corporate tax return IRS Form 1120; and
  - Individual tax returns.
- When an Applicant's percentage of ownership does not appear on the tax returns, Luxury Mortgage Corp. must obtain the information from the corporation's accountant, along with evidence that the Applicant has the right to any compensation.

### ***Analyzing Corporate Tax Returns***

- In order to determine an Applicant's self-employed income from a corporation the adjusted business income must:
  - Be determined; and
  - Multiplied by the Applicant's percentage of ownership in the business.
- The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment item	Description of adjustment
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduce taxable income by the tax liability
Fiscal Year vs. Calendar Year	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash withdrawals	The Applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

### ***Income Analysis: "S" Corporation Tax Returns (IRS Form 1120S)***

- An "S" corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.
- Income for owners of "S" corporations comes from IRS Form W-2 wages and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the Applicant's individual IRS Form 1040.

### ***Analyzing "S" Corporation Tax Returns***

- "S" corporation depreciation and depletion may be added back to income in proportion to the Applicant's share of the corporation's income.
- In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one year.
- Important: The Applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating and must be considered in the income analysis.

### ***Income Analysis: Partnership Tax Returns (IRS Form 1065)***

- A partnership is formed when two or more individuals form a business, and share in profits, losses, and responsibility for running the company.
- Each partner pays taxes on his/her proportionate share of the partnership's net income.

### ***Analyzing Partnership Tax Returns***

- Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.
- Luxury Mortgage Corp. will review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the Applicant's share of income.
- Income must also be reduced proportionately by the total obligations payable by the partnership in less than one year.
- Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating and must be considered in the income analysis.

### ***Asset Validation***

- Confirm Applicant(s) assets reflected on the application have been properly documented and supported with complete two months' most recent bank statements (all pages) or a fully completed Verification of Deposit, which must reflect a minimum two-month

average balance. Any large deposits not consistent with Applicant (s) income or financial situation, and/or increases must be sufficiently documented in order to determine the source of funds is acceptable and no new debt has been incurred. If the assets consist of 401(k), Investment/Brokerage/IRA accounts, confirm documentation consists of the most recent quarterly statement, as applicable.

- Determine that Applicant(s) have sufficient assets for any required down-payment, closing costs, prepaid items, escrows and/or required reserves meeting applicable Luxury Mortgage Corp. guidelines
- When a residential loan Applicant intends to use cash from a closely-held business to meet reserves requirements, they must provide three months of business bank statements as evidence of the availability of those funds. In addition, if the Applicant is not the sole shareholder, they must furnish a letter from a partner or corporate officer of the business stating that the funds may be used in the proposed transaction. The three months business bank statements must be analyzed by the underwriter to determine the utilization of the business funds will have no adverse impact on business operations.
- 401k or Other Retirement Accounts: Vested funds from individual retirement accounts (IRA/Keogh accounts) and 401k accounts may be used as the source of funds for the down payment, closing costs, or reserves. Accounts that reflect a stipulation of a restriction for withdrawal, except in the event of retirement, death, or termination of employment, **cannot** be utilized as assets.
- Deduct any current loans and any withdrawals being used towards the current transaction. Of the remaining amount, only **70%** can be listed as assets used for qualifying/reserves. This is to account for any withdrawal penalties or taxes that may be incurred. An Applicant may borrow against their 401k retirement account for assets to close. The Applicant must provide documentation showing the terms and conditions of the 401k loan. Payments on 401k loans are not included as a debt, regardless of the LTV or loan amount.
- Stocks/Bonds/Mutual Funds: Verify the value of securities from a current statement or copy of the security. Confirm Applicant's ownership of the account; a maximum of **70%** of the value of the account can be utilized. Verify the receipt of funds from the sale or liquidation of the securities by obtaining a stock redemption statement if these funds are needed to complete the transaction.

## Qualifying Rate

Fixed Rate loans- qualify at note rate

ARMS with fixed periods of five years or less, qualifies at the greater of the start rate plus maximum first adjustment occurring after fixed period has ended or fully indexed rate.

ARMS with fixed periods greater than 5 years qualify at the greater of the note rate or the fully indexed rate

## Qualifying Ratios

Qualifying Underwriting Ratios consist of two components, a monthly housing expense ratio (Housing Ratio) and a total monthly debt obligation ratio commonly referred to as the Debt-to-Income ratio or DTI. These two ratios are used to compare the Applicant's anticipated monthly housing expense and total monthly debt obligation expenses to his or her stable monthly gross income.

## Housing Ratio

The monthly housing expense is the sum of the following charges on the primary residence (or new loan on a primary residence):

- Monthly principal and interest payment on the Applicant's primary home and 1/12<sup>th</sup> of the annual hazard insurance premium
- 1/12<sup>th</sup> of the annual real estate taxes
- 1/12<sup>th</sup> of the annual flood insurance premium, when applicable
- Monthly leasehold or ground rent payments, when applicable
- Monthly HOA dues, condominium maintenance fees, monthly assessments, when applicable
- Monthly payment for other financing, when applicable
- For HELOCs, use .5% of the outstanding balance or the credit report payment amount to determine the HELOC monthly payment used for calculation
- Special assessments
- Any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)
- Any monthly co-op corporation fee (less the *pro rata* share of the master utility charges for servicing individual units that is attributable to the Applicant's unit)
- Any subordinate financing payments on mortgages secured by the subject property

When a mortgage is secured by a second home or an investment property, the monthly principal, interest, taxes, insurance, and other assessments (as listed above) for the mortgage are not considered part of the Applicant's monthly housing expense. Rather, those expenses are considered one of the Applicant's monthly debt obligations.

**Housing Ratio** = Monthly Housing Expense / Monthly Income



Generally, Housing Ratio should be less than 38%.

### Debt-To-Income (DTI) Validation

The DTI ratio compares the Applicant's total monthly obligations with their qualified monthly gross earnings. A favorable comparison validates the ability of the Applicant to repay the loan under its prescribed terms based on the Applicant's financial strength. Luxury Mortgage Corp. does not allow any debt, revolving or installment, **to be paid down to ten (10) months in order** to be excluded from the Total Monthly Debt Obligation ratio calculation.

The Debt to Income ratio is calculated by the sum of the following expenses being divided by the Applicant's stable monthly gross income:

- Monthly housing expense on the Primary as calculated above,
- Monthly payments on installment debts and other mortgage debts that extend beyond ten months,
- Monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the Applicant's ability to meet credit obligations,
- Monthly payments on revolving debts,
- Monthly payments on lease agreements, regardless of the expiration date of the lease
- Monthly payments on deferred student loans
- Monthly alimony, child support, or maintenance payments that extend beyond ten months,
- All payments for other recurring monthly obligations; and any net loss from a rental property.

**DTI** = Total Monthly Obligations / Monthly Income

Luxury Mortgage Corp. will provide credit for a QM loan to a maximum DTI of 43.000%.

### Payment Shock

One of the strongest indicators of an Applicant's ability to pay is their past record of handling housing expenses. The current level of housing expense should be compared to the proposed new obligation. Applicants with significant payment shock of 50% or greater may require additional documentation and or verified reserves to determine that they have the ability to repay the loan. Applicants with payment shock greater than 100% require 6 months additional reserves above the applicable reserve requirement for that type of loan unless the payment increase is caused by a reduction in the term of the loan or changing from an interest only to fully amortizing or from an ARM to a fixed rate.

**Payment Shock** =  $\frac{\text{Proposed Monthly Housing Expense} - \text{Current Monthly Housing Expense}}{\text{Current Monthly Expense}}$

### Loan-To-Value (LTV)/Combined Loan-To-Value Validation (CLTV)

Luxury Mortgage Corp. will determine if the loan meets the LTV and CLTV eligibility requirements for the specific loan being reviewed. LTV and CLTV calculations are below.

#### LTV Ratio

The LTV of a property is the relationship of the mortgage amount(s) to the property's value. For this calculation the property value is the lower of the sales price, documented cost or the current appraised value. LTV plays an important role in the overall analysis of the loan request and final disposition. Unless otherwise noted in the Guidelines, the LTV ratio calculation depends on whether the transaction is a purchase or refinance transaction.

**Purchase Money Transactions** =  $\frac{\text{Original Loan Amount}}{\text{Lower of sales price or appraisal value}}$

**Refinance Transaction** =  $\frac{\text{Original Loan Amount}}{\text{Property Value}}$

#### CLTV Ratio

Where the Applicant has subordinate financing, the combined or total LTV (CLTV/TLTV) of the junior liens and first lien must be considered in determining if the loan request falls within the product or program parameters. The CLTV ratio is calculated by dividing the total of all liens (first mortgage and all other recorded subordinate financing liens) by the lower of appraised value at the time the loan is closed or purchase price (or documented costs).

**CLTV** =  $\frac{\text{Original Loan Amount First Mortgage} + \text{Full Amount of Any Home Equity Line of Credit} + \text{the unpaid principal balance of all closed-end subordinate financing}}{\text{Lower of sales price or appraisal value}}$

### Other Underwriting Concerns

#### Sale of Departing Residence

- If the borrower is under non-contingent contract to sell departing residence, the DTI can be calculated excluding the prior housing expenses (PITIA), if an additional 6 months of debt service coverage on the home to be sold is verified.
- If the borrower is **not** under contract to sell departing residence OR under contract to sell with mortgage contingencies:
  - The prior home will be treated as an investment property and standard underwriting guidelines apply. The debt for the prior home will be included in DTI.
  - Rental income is allowed pursuant to the non-conforming guidelines. (Refer to “Principal Residence Being Vacated by Applicant” under “Analyzing IRS Form 1040 Schedule E” in Section 7 of this document.)

## Loan Decision

Luxury Mortgage Corp. will make an underwriting decision based on the information documented in the loan file. Luxury Mortgage Corp. will ensure that the loan conforms to applicable government regulations.

## Exceptions/Variance

If Luxury Mortgage Corp. considers the approval of a loan that contains a deviation from the Guideline, the deviation will be classified either as an exception or as a variance. If an exception is identified, approval may be sought from LMC's Credit Risk department.

## SECTION 12: PROPERTY

Luxury Mortgage Corp. requires that all residential mortgage loans shall have an appraisal performed by an independent unbiased appraiser as part of the credit decision making process. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. Appraisals must be completed on the appropriate form and include proper documentation, and legible exterior / interior photos including but not limited to all bedrooms and bathrooms. Changes or alterations made to an appraisal (including value estimate) must be completed by the original appraiser.

Any type of appraisal or appraisal-related work may not be completed, in whole or in part, by an appraiser on Luxury Mortgage Corp.'s Ineligible Appraiser List. Luxury Mortgage Corp. will not accept an appraisal for which the Applicant has ordered and paid the appraisal fee directly to the appraiser, as per USPAP.

Luxury Mortgage Corp. will ensure that production personnel will not have any direct or indirect contact with the appraiser as per Home Valuation Code of Conduct (HVCC) guidelines.

Appraisal assignments are not acceptable.

### Appraisal

Luxury Mortgage Corp will provide an approved list of Appraisal Management Companies through whom the appraisal(s) may be ordered. Luxury Mortgage Corp. is also responsible for reviewing and approving the appraisal using methods that are acceptable under the Interagency Appraisal and Evaluation Guidelines or appropriate industry convention. Luxury Mortgage Corp. will confirm the completed appraisal(s) is for the property securing the loan and order a CDA. The value approved will be used for qualification. If two appraisals are required, the value used for qualification is the accepted value by Luxury Mortgage Corp.

**\*Luxury Mortgage Corp. will not accept transferred appraisals**

### Valuation Report Engagement

Luxury Mortgage Corp./Broker is solely responsible for selecting and engaging the appraiser and reviewing and approving the appraisal. Production personnel are not allowed to order appraisals reports directly or with the appraiser.

Luxury Mortgage Corp. will confirm the completed appraisal is for the property securing the loan. If multiple appraisals or valuations are required, generally, the value used for qualification is the lower of the valuations.

### Second Appraisal Requirement

<b>One Appraisal</b>	➤ Loan amount between \$647,201.00-\$1,000,000.00
<b>Two Appraisals</b>	➤ Loan amounts exceeding \$1,000,000.00 - \$2,000,000 ➤ Requested by Luxury Mortgage Corp. for clarification or to support property value

### Appraisal Age and Expiration

The appraisal is valid for 120 days. A recertification of value may be acceptable for an additional 60 days. If the property value has declined from the first appraisal, a new full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. In no case can the appraisal be greater than 180 days.

### Acceptable Appraisal Report Forms and Documentation

Unless otherwise approved by LMC, the applicable Fannie Mae or Freddie Mac appraisal form for the property type and transaction.

### Field Reviews (Exterior Appraisal Form 2055)

A Field Review is an evaluation of a prior appraisal that has been provided to the Field Review Appraiser. The Field Review provides an exterior inspection of the subject property from the street; analyzes the information provided in the prior appraisal for accuracy and completeness; and provides either agreement with prior value or a new opinion of value. Field Reviews should always be completed by a certified appraiser if Luxury Mortgage Corp. deems it necessary or if dictated by specific product, program, or geographic requirements.

## Determining Collateral Value

Collateral valuations impact the determination of the loan-to-value ratios, as well as approval of exceptions.

## Purchase Transaction

The collateral value is based upon the lesser of the sales price (minus concessions or excess contributions), or the appraised value.

## Refinance Transactions

Generally, collateral value is calculated from the new appraised value. However, on properties owned less than 12 months prior to the mortgage loan application date; use the lesser of the purchase price at time of acquisition or the current appraised value to determine Loan-to-Value.

## Disaster Areas

The following policy applies to properties located in Presidential/State declared disaster areas. For loans secured by properties appraised prior to the Presidential/State declaration but have not closed, the following post-disaster guidelines apply. An interior and exterior inspection preferably by the original appraiser of the subject property is required. The inspection should provide a certification stating;

- Subject property is free from damage and is in the same condition as previously appraised;
- The marketability and value of the subject property remain the same.

## Termite Inspections

Termite inspections are required if the appraisal report or contract indicates possible infestations.

## Eligible Property Types

Most property types are determined by the appraisal designation in addition to the Applicant's statement on the mortgage loan application. Luxury Mortgage Corp. provides the following classifications for eligible properties. Properties are expected to be in good condition. LMC will not purchase loans wherein it is determined that the property is in poor condition.

Property Type / Feature	Description / Requirements
<b>1 unit attached/detached, unit in de minimis PUD</b>	A fee simple single-family dwelling (SFD) is designed for occupancy by one family and generally the dwelling will <b>not</b> have common exterior walls with another residence. In some cases, a fee simple SFR may be attached and not be classified as either a condominium or PUD. The dwelling may be located on an individual lot, in a subdivision, or in a project.
<b>2-4 Unit Residences</b>	Generally, these residences are attached units, with one blanket mortgage, designed to be occupied by two, three, or four families, (one family for each unit). Luxury Mortgage Corp. considers a unit to be an area that contains at least one bedroom, a full working kitchen and bathroom. The dwellings may be located on an individual lot, in a subdivision, or in a PUD and include Duplexes, Triplexes and Four-plexes.
<b>Condominium Unit</b>	Title to a unit of real property which, in reality, is the air space which an apartment, office or store occupies. An increasingly common form of property title in a multi-unit project, condominiums actually date back to ancient Rome, hence the Latin name. The owner of the condominium also owns a common tenancy with owners of other units in the common area, which includes all the driveways, parking, elevators, outside hallways, recreation, and landscaped areas, which are managed by a homeowners' or tenants association. If the condominium unit is destroyed by fire or other disaster, the owner has the right to rebuild in his/her airspace. Most states have adopted statutes to cover special issues involving development, construction, management and taxation of condominium projects.

<b>Site Condominium</b>	<p>LMC originate loans secured by Site Condominiums. In order for the project to be considered a Site Condominium all of the following must be met:</p> <ul style="list-style-type: none"> <li>➤ Project must consist of two (2) or more units (i.e., Attached Townhomes or Separate Units with condominium legal description)</li> <li>➤ Units must be encumbered by a condominium declaration/covenant</li> <li>➤ If there any part of the structure is considered to be a common areas, such as archways, breezeways, porches or decks, front steps or garages. Unit owners must have an arbitration agreement.</li> </ul> <p>Each Unit must have its own exterior/interior insurance policies. Refer to the <a href="#">insurance</a> chapter for additional information.</p>
<b>Mixed-Use Property</b>	Not allowed.
<b>Rural Properties</b>	<ul style="list-style-type: none"> <li>➤ Luxury Mortgage Corp. finances properties, which are residential in nature, whether the property is urban, suburban, or rural. If a property is rural and contains considerable land, it must be used primarily for residential purposes.</li> <li>➤ LMC does not have a restriction on acreage; however, the value must primarily be in the residential structure, property must have adequate utilities and roads which meet local standards. The property must be accessible for year round use.</li> <li>➤ Luxury Mortgage Corp. does not “carve out” a reduced parcel for appraisal purposes. The appraisal must reflect the value of the “entire” site. Additionally, the site description must accurately describe the entire site and any improvements including outbuildings.</li> </ul>
<b>Unique Properties</b>	Properties where the appraiser has stated that there is limited marketability within the subject area because the property does not conform to the neighborhood will be considered unique. May be financed on a case-by –case basis and might be subject to an LTV reduction.

## Properties with Security Bars

Security Bars on windows are a potential safety issue that must be addressed prior to closing. Security Bars must comply with local fire codes and meet one of the following conditions:

- There must be a “Quick” Release” on at least one window in each bedroom. Appraiser must comment on whether or not security bars meet local codes; whether or not there are safety release latches installed and provide photos of the release latches.
- All bedrooms must have adequate egress to the exterior of the home. Appraiser must provide comments

## Land Contracts

A mortgage in which the proceeds are used to pay the outstanding balance under a recorded land contract or contract for deed may be considered either a purchase transaction or a rate and term refinance, as described below. A copy of the executed land contract or contract for deed is required.

Purchase transaction requirements:

- The land contract or contract for deed must have been executed less than 12 months prior to the loan application interview date.
- All of the loan proceeds must be used to pay the outstanding balance under the land contract or contract for deed, and no loan proceeds may be disbursed to the Applicant.
- The LTV must be calculated using the lesser of the following:
  - The current appraised value, or

- The total acquisition cost (the purchase price indicated in the original land contract or contract for deed, plus any cost the Applicant has expended for rehabilitation, renovation, refurbishment or energy conservation improvements). The Mortgage file must contain sufficient documentation on which to calculate the total acquisition cost.

Refinance transaction requirements:

- The land contract or contract for deed must have been executed at least 12 months prior to the loan application interview date.
- The LTV must be calculated using the current appraised value.
- Third-party documentation evidencing no late payments in accordance with the land contract or contract for deed for the most recent 12-month period must be provided.
- The transaction must meet the requirements for a rate and term ("no cash out") refinance.

## Ineligible Property/Loan Types

Ineligible property types include but are not limited to:

- Properties with less than 500 square feet
- Loans in cooperative projects
- Manufactured Housing / Mobile Homes
- Houseboat Properties
- Condominium Hotels (Condotels)
- Unique properties where marketability has not been established
- Buildings or projects with non-conforming use of land where zoning prohibits rebuilding in the event of total or partial destruction
- Units managed in rental pools
- Properties in communities where liens may not be perfected, except for specific loan programs that address the lien perfection issue
- Properties located in Lava Zones 1 and 2 (Hawaii)
- Projects with leased recreational facilities (recreation lease)
- Land - Loans where the land value exceeds 70% are generally considered ineligible
- Properties with no public access
- Properties that represent an illegal use under zoning regulations
- Loans where the highest and best use of the subject property is not as improved (or as proposed per plans and specifications) are not eligible
- Single Resident Occupancy Properties
- Timeshares
- Agriculturally zoned properties ineligible only if income producing working farm. If residential in nature and marketability supported by appraisal, then acceptable.
- Construction loans
- Multifamily – greater than 4 units
- Properties deemed to be in poor conditions as stipulated by the appraisal
- Properties subject to a deed restriction
- Properties subject to a land lease
- Mixed-use properties



## **SECTION 13: CLOSING REQUIREMENTS**

Luxury Mortgage Corp. reserves the right to perform any post-closing due diligence it deems necessary. If any deficiencies are identified, Luxury Mortgage Corp. expects its brokers to assist with clearing any that LMC cannot clean on its own.

### **Power of Attorney**

If a Power of Attorney (POA) form is used, the following at a minimum is required. A POA is not allowed for Transactions involving Trusts. Luxury Mortgage Corp. must review and approve any POAs used.

- The POA must be specific to the transaction with reference to the property address or legal description. It must comply with state law, allow for the Note and related Mortgage or Deed of Trust to be legally enforced, and be acceptable to the title insurer and closing agent;
- The POA must be fully executed, notarized, dated prior to the closing date and recorded prior to the Mortgage or Deed of Trust, with a certified copy retained in the purchase package documentation.
- Signature blocks must be typed out with correct verbiage and signatures must reflect typed verbiage
- Appointee may not be an interested party to the transaction (real estate, broker, builder, etc.)
- At least one applicant on the transaction must be present at closing and can be the appointee for the other parties to the transaction.

### **Real Estate Taxes**

Taxes must be current at the time of loan closing. Delinquent taxes, special assessments and taxes due within 60 days of closing must be paid in full at or before closing. Evidence of payment must be included in the closing documents.

### **Escrow Accounts**

LMC will purchase loans with and without taxes and homeowners (hazard) insurance escrowed or impounded according to the Guidelines. For loans purchased with escrows of impounds, Luxury Mortgage Corp. will provide the borrower with an initial escrow disclosure statement indicating all items to be escrowed and monthly payment amount. The escrow account and appropriate reserves must be established at the time of closing as evidenced by the Closing Disclosure. If the property located in a Special Flood Hazard Area, escrow account for flood insurance is mandatory.

## APPENDIX A: CONDOMINIUM

A condominium is a real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas. A condominium unit is a one (1) unit dwelling located in a condominium project.

### Lending areas

Luxury Mortgage Corp. will provide financing for Condominium Projects located in Luxury Mortgage Corp.'s lending area. Luxury Mortgage Corp. will originate Condominium loans in its lending footprint.

### Correspondent Concentration

Luxury Mortgage Corp. will limit its exposure in any Condominium Project to:

- The lesser of 10% or 50 units for Warrantable Condominiums; OR
- The lesser of 10% or 25 units for Non-Warrantable Condominiums.

LMC's exposure to a single project cannot exceed \$25MM or the limitations listed above, whichever occurs first. Please inquire with Luxury Mortgage Corp. for its current status and concentration in any condo project.

### Eligible Projects

For a non-conforming loan, Luxury Mortgage Corp. will provide financing for condominium units located in a Luxury Mortgage Corp. approved project. All condominium projects GSE warrantable condominiums.

### Unit Requirement

Minimum Square Footage – 500 square feet

### Project Definitions

There are three categories of condominium project approval

- Warrantable
- Non-Warrantable
- Special Approval

### Warrantable Eligibility Criteria

- The condominium project has been created and exists in full compliance with the applicable State law requirements of the jurisdiction where the condominium project is located and all other applicable laws and regulations.
- The project is complete (including all units and common elements), the project is not subject to additional phasing or annexation and the control of the homeowners' association has been turned over to the unit owners.
- The project has a minimum of 10 units. Luxury Mortgage Corp. may provide financing for projects with less than 10 units subject to the criteria listed in the [section](#) to follow
- At least 90% of the total units have been conveyed to the unit purchasers.
- At least 75% of the total units in the project must have been sold and closed to owner-occupant primary residences or second home purchasers, not including the developer or sponsor.
- Conversion projects must be fully converted at least two (2) years
- Attached units and single family residences (site condominiums) with condo designation are eligible. The project must be located on one contiguous parcel of land.
- The Home Owners Association (HOA) must be controlled by the unit owners.
- No more than 10% of total units in the project can be 30 days or more past due on the payment of their condominium/association fee payments
- No single entity (the same individual, investor group, partnership, or corporation) may own more than 10% of the total units in the project, unless these units are required to be held due to rent control.
- Units in the project must be owned in fee simple, and the unit owners must have sole ownership and rights to the use of the projects common areas
- All facilities related to the project must be owned by the unit owners or the Homeowners Association – The developer must not retain any ownership interest in any of these facilities. However, a third-party entity may own common elements typically for recreational purposes-leased to the association
- Each individual unit must be separately metered
- A review of the budget is required to determine - budget adequacy; provide for funding of reserves for capital expenditures and deferred maintenance, and provides adequate funding for insurance deductible amounts
- Any commercial space in a condominium project should be compatible with the overall residential nature of the project. No more than 25% of the total space should be used for nonresidential purposes (see additional criteria for mixed use condominium projects below.)

- Any right of first refusal in the condominium constituent documents will not impair the rights of the first mortgagee (Luxury Mortgage Corp.) or its assignee to:
  - foreclose or take title to a condominium unit pursuant to the remedies of the mortgage,
  - accept a deed or assignment in lieu of foreclosure in the event of default by the Applicant, or
  - sell or lease a unit acquired by the mortgagee (Luxury Mortgage Corp).
- Any first mortgagee (Luxury Mortgage Corp.) who obtains title to a condominium unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six (6) months of the unit's unpaid regularly budgeted dues or charges accrued before the acquisition of the title to the unit by Luxury Mortgage Corp. If the condominium association's lien priority includes costs of collecting unpaid dues, the Seller/Service will be liable for any fees or costs related to the collection of the unpaid dues.
- All taxes, assessments and charges that may become liens prior to the first mortgage under local law relate only to the individual condominium units and not the condominium project as a whole.
- No provision of the condominium constituent documents gives a condominium unit owner or any other party priority over any rights of the first mortgagee of the condominium unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.
- All amenities (such as parking, recreation and service areas) are a part of the condominium project and are covered by the mortgage at least to the same extent as the common elements. All common elements and amenities are fully installed, completed and in operation for use by unit owners.
- Condominium dues or charges include an adequate reserve fund for the maintenance, repair and replacement of common elements that must be periodically maintained, repaired or replaced. The dues or charges are payable in regular installments rather than by special assessments.
- Luxury Mortgage Corp. is entitled to written notification from the homeowners' association of any default in performance by an individual unit owner of any obligation under the condominium constituent documents that is not cured in 60 days.
- The condominium unit mortgage is covered by a title insurance policy that meets GSE requirements and includes an ALTA Form 4, Condominium Endorsement, or its equivalent.
- The condominium project and the mortgage premises are covered by an acceptable hazard; flood (if applicable); fidelity, if applicable; and liability insurance policy.

### Non-Warrantable Criteria

A condominium project may be acceptable on a Non-Warrantable bases if meets the above (Warrantable) criteria with the exceptions below. A non-warrantable condo project is subject to an LTV limitation and pricing adjustment. See the LTV matrices and rate sheet for applicable information.

- At least 70% of the available units have been sold.
- At least 20% of the total units have been conveyed to the unit purchasers.
- Control of the Board has been turned over to the unit owners.

### Special Approval Criteria

Luxury Mortgage Corp. may grant Special Approval to new construction or new conversion projects if meets the above (Warrantable) criteria with the exceptions below:

- At least 51% of the units have been sold.
- At least 20% of the sold units have been conveyed to the unit purchasers.
- At least 50% of the conveyed units must be to owner-occupants, not including the developer or sponsor.
- Note: see rate sheet for any pricing implications that may apply and LTV limitations

### Mixed-Use Commercial Projects

A Mixed-Use Condominium Project is a project with both residential and commercial use. The mixed use maybe within one building or multiple buildings.

Luxury Mortgage Corp. will consider units in established mixed-use condominium projects for financing. Acceptable mixed-use Condominium Projects must be residential in nature. The commercial use will generally be located on the bottom floors and residential units on the upper floors. In addition to meeting the Warrantable Eligibility project requirements above, the mixed-use commercial condominium project must meet the following requirements:

- No more than 25% of the total space should be used for non-residential purposes.
- Must not be part of an overall mixed-use project with multiple classes of unit owners and with a commercial entity as the manager over the entire project
- The overall project cannot include a hotel or similar type of entity and may not be a project with fragmented or segmented ownership, or a project with fractured interest.
- Any presale and owner-occupancy requirements for the project classification apply to the total number of residential units only

- The project documents must explicitly address the retail and commercial use in the project
- The retail/commercial unit owners must pay all expenses related to the retail or commercial use. Residential unit owners must not be required to pay for renovation of the retail or commercial space except when the renovation is for the whole building and is agreed to by a majority of the retail or commercial unit owners and a majority of the residential unit owners.
- If there is a common entrance to the retail/commercial and residential units, a majority of the retail/commercial unit owners and a majority of the residential unit owners must both agree to pay any expenses to upgrade or renovate the common space
- The commercial or retail owners must carry appropriate commercial insurance paid for solely by the retail or commercial unit owners
- The project documents must explicitly describe the relationship between the residential unit owners and the retail or commercial owners, including the voting rights of the two. The retail/commercial unit owners must not have the right to override the residential unit owners when the issue involves the residential units.
- The project documents must explicitly identify the Common Elements and Amenities that are reserved for the residential unit owners, including parking facilities for the residential unit owners
- The project documents must explicitly address how assessments are allocated between the residential and retail/commercial owners
- The project management must not manage a rental program for the residential unit owners

### **Less than 10 units**

In addition to the Warrantable Eligibility criteria above, for projects with less than 10 units:

- Project must be owner occupied or second homes, no investors
- No more than one unit may be owned by a single entity
- Legal documents, if available, must contain procedures for arbitration in the event of a split vote and/or to facilitate disputes
- Units must be architecturally compatible with one another
- Appraisal must clearly demonstrate marketability of these type projects in the market area. Comparable should be from like size projects.

### **Ineligible Projects**

- Condominium hotels (i.e., condotels)
- Timeshare or segmented ownership projects
- Multi-dwelling unit condominiums
- Condominium projects that represent a legal, but non-conforming, use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction,
- Projects with non-incidental business operations owned or operated by the owner's association such as, but not limited to, a restaurant, spa, health club, etc.
- Projects comprised of manufactured homes
- Timesharing or Segmented Ownership
- "Own your Own" Projects – The unit owners hold a grant deed for an undivided percentage of interest in the real property. The grant deed provides "Exclusive Right to Occupy" a certain apartment. While often mistaken for a condo or co-op, "Own your Own" properties are not legally classified as such
- Projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity
- Common Interest Apartments or Community Apartment Projects or Tenants-In-Common Projects (more than one tenant in ownership)

### **Required Documentation**

The documents (in addition to the appraisal report) that will assist in appropriately warranting a condominium project (or phase) include, but are not limited to the following:

- Condominium Questionnaire
- Any current or pending litigation
- Current year's operating budget
- Complete copy of audited financial statements for past 2 years
- Copy of Declarations page of Master Insurance Policy
- Any other document identified on the Condominium Questionnaire

### **Financial Review**

A review of the Condominium Project's financial statements must confirm the project:

- Is well managed,
- Has sufficient assets to maintain a favorable equity position in the real estate,
- Has sufficient operating income to meet expenses,
- Does not have a history of delinquency,
- Does not have excessive liens against the building, and
- Does not have adverse structural or hazardous conditions existing

## APPENDIX B: INSURANCE

### Hazard Insurance

The subject property must be protected (including when vacant) against loss or damage from fire and other perils with a Homeowners/Master Casualty Policy, through a company, which has an acceptable rating to Luxury Mortgage Corp. Hazard Insurance is required for all 1-4 unit attached and detached properties. An individual Homeowners policy is acceptable for 2- to 4-unit properties. Requirements for Attached PUDs, and Condominiums are detailed in separate sections below.

The insurance must be in force at the time of closing. The loan file must evidence the existence of insurance for the subject property and project (when applicable) prior to the close of escrow. Acceptable proof would be front and back copy of canceled check, Closing Disclosure showing payment, and receipt for payment of the premium, the insurance binder or the policy with a minimum of 30 days remaining on the policy at the time of funding. The hazard insurance policy must contain a mortgagee clause, naming Luxury Mortgage Corp., as the loss payee. The insurance must be maintained throughout the duration of the loan.

### Effective Dates for Dry Closing States

For Purchase transactions in Dry Closing States (Arizona, California, Idaho, Nevada, New Mexico, Oregon and Washington) the Insurance policy Effective Date can be the Funding Date (Date in which money has been transferred, documents signed, and funding conditions have been satisfied). Does not need to be the Closing Date (date documents are signed).

### Attached PUD specific hazard insurance requirement

The homeowner may provide insurance protection from either an individual insurance policy or a master insurance policy provided by the HOA using one of the following options:

- A master policy provided by the HOA that includes full insurance protection for the individual (both exterior and walls-in) as well as the common areas
- A master policy provided by the HOA that includes coverage for the exterior of the unit as well as common areas, the homeowner must then provide a walls-in policy, or
- A master policy provided by the HOA that covers only the common areas. The homeowner must then provide coverage for both the exterior and interior (walls-in) of the unit

Either the master policy or the individual unit policy must provide adequate liability coverage in addition to structural coverage

### Acceptable Rating Categories

Luxury Mortgage Corp. will accept hazard insurance policies from a carrier rated:

- A.M. Best Company - "B" or better financial strength rating in Best's Insurance Reports
- Demotech, Inc. - "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings
- Kroll Bond Rating agency - "BBB" or better rating in Kroll Bond Rating Agency's Insurance Financial Strength Rating (IFSR)
- Standard and Poor's Inc. - "BBB" or better insurer financial strength rating in Standard and Poor's Rating Direct Insurance Services.

Luxury Mortgage Corp. will accept policies underwritten by Lloyd's of London or Hawaiian Insurance and Guaranty Company even though they are not rated by one of the acceptable rating agencies. In addition, coverage obtained through state insurance plans is acceptable to Luxury Mortgage Corp., if that is the only coverage available.

### Amount of Coverage

The amount of coverage must be at least equal to:

- Replacement Cost coverage or similar verbiage as stated in the declarations page, or
- if replacement cost coverage or similar verbiage isn't identified on the declarations page, we require the minimum insurance coverage to be equal to 100% of the insurable value of the improvements as established by the insurer with insurer's cost estimator OR Total cost new per appraisal (if available).

Luxury Mortgage Corp. will not accept hazard insurance policies that limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril.

The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions.

### Rent Loss Coverage

For 2-4 unit properties rental loss insurance is not required for portfolio products. For GSE loans, follow underwriting recommendations/findings.

### Acceptable Terms

Hazard policies may have a term of one year or life of loan.

### Deductible

Minimum deductibles may be dictated by state regulation. The maximum deductible for casualty insurance is 5% of the face amount of the policy.

### Lender-Placed Coverage

Luxury Mortgage Corp. or its agents will force place insurance (at Applicant's expense) on any collateral where the Applicant's act of omission or commission nullifies the required insurance coverage.

### Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. This 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. Flood insurance is required to be escrowed.

### Flood Zone Determination

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). In addition, the appraisal report should accurately reflect the flood zone.

Luxury Mortgage Corp. requires that a completed Standard Flood Hazard Determination Form (FEMA Form 81-93) be in the file.

### Coverage and Deductibles

If the subject property is located in a Special Flood Hazard Area, flood insurance is required and maintained as follows:

- Buildings and improvements in Flood Zone A (lettered or numbered) or Zones V1 through V30 must have flood insurance;
- Minimum flood insurance coverage must be the lower of:
  - 100% of replacement cost of dwelling;
  - The maximum insurance available from the National Flood Insurance Program (NFIP); (1-4 Family Maximum available coverage \$250,000.00)
  - The unpaid principal balance (UPB) of the mortgage.
- Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP);
- The Applicant's name and the subject property must be on the flood insurance application or binder;
- The flood insurance policy must contain a mortgagee clause, naming "Luxury Mortgage Corp., N.A." as the loss payee;
- Evidence of coverage must be provided at closing; (for refinance transactions, if an existing flood insurance policy is in place and the expiration date of the policy is less than 30 days from the closing date of the transaction, then an updated flood insurance policy is required)
- The insurance must be maintained throughout the duration of the loan.
- Luxury Mortgage Corp. will force place flood insurance if an Applicant allows a policy to lapse or if it is determined that the current coverage is inadequate.

The flood insurance requirement may be waived if the Applicant obtains a letter from FEMA, Letter of Map Adjustment ("LOMA") stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard. The appraisal report and flood determination form should be amended by the appropriate vendors to accurately reflect the change to the flood zone.

### Private Flood Insurance

**Private flood insurance** is an alternative to the government-backed **National Flood Insurance Program (NFIP)** policies. Consumers who live in a Special **Flood** Hazard Area (SFHA) **can purchase** a policy through a **private** insurer to satisfy federal mandates and mortgage requirements. **Refer to aforementioned Flood Insurance Section within these Guidelines.**

### Catastrophic Insurance

In specific geologic locations, catastrophic events may occur on a more regular basis. If the subject property is located within these areas, additional insurance may be required.

Examples of catastrophic insurance are:

- Hurricane Insurance
- Lava Insurance

### Title Insurance

The subject property must be covered by a title insurance policy or other approved form of title evidence issued by a title insurer acceptable to Fannie Mae/Freddie Mac or Luxury Mortgage Corp. The title insurer must be qualified to do business in the state where the subject property is located. The title insurance policy must be a current standard form of the American Land Title Association (ALTA) Policy. If applicable in the subject property state, an attorney's opinion letter may be submitted.

The title insurance policy must insure and protect the mortgagee of the loan and all successors and assigns against:

- Unrecorded mechanic's liens;
- Unrecorded physical easements;



- Facts that a physical survey would reveal;
  - Water and mineral rights;
  - Rights of parties in possession (Vesting).
    - Tenants under unrecorded instruments;
    - Buyers under unrecorded instruments.
- Additional issues which may be covered by attached Endorsements;
- Environmental Protection Lien Endorsement which is required for all loans (Forms: ALTA 8 or 8.1; or 110.9);
- Comprehensive Endorsement and a Location Endorsement required for all loans without surveys (CLTA Form 100 and Form 116).
- ARM endorsement;
- PUD endorsement;
- Condominium Endorsement;
- Mineral rights endorsement insuring against loss due to surface entry (CLTA Form 100.29);

#### Required Information

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.

#### Title Policy Requirements

All loans must be covered by a title insurance policy or other approved form of title evidence that is paid in full, and is valid, binding and remains in full force and effect.

- The lien(s) must be insured in the designated position of the most recent holder of the collateral;
- The amount of coverage must be equal to the face value of the loan amount;
- An ALTA insurance company must issue all title commitments and/or policies with Endorsements. Copies of documents verifying proof of satisfaction or release to eliminate any items on title is retained with the title work;
- Real estate taxes must reflect "not yet due and payable" upon closing. On condominiums and single family dwellings taxes can only be assessable against the subject unit and its undivided interest in the common areas, and not the project as a whole.

#### Chain of Title / Continuity of Title

For refinances, continuity of obligation must be established on the part of at least one Applicant. The Applicant must be on title for a minimum of 6 months prior to application date. If current title is vested in a company name, continuity of obligation must be established for all Applicants by providing supporting documentation that all Applicants had ownership in such company for a minimum of 12 months.

#### Acceptable 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 the use and enjoyment of any present 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; 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 (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a ten (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 (1) 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.

#### Survey Requirements

Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. The survey must conform to Fannie Mae/Freddie Mac guidelines.

## Condominium Insurance Requirements

### Master/Blanket Insurance Policy

The Homeowners' Association (HOA) must maintain a policy of property insurance, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded such as land, foundation, or excavations. Included common elements may be fixtures, building service equipment, common personal property, and supplies. Luxury Mortgage Corp. requires the following the following insurance for condominium projects:

### Hazard Insurance

Luxury Mortgage Corp. will accept condominium hazard coverage as detailed in Fannie Mae's Correspondent Seller Guide, Hazard and Flood Insurance. Or:

- The Condominium Project must maintain a commercial insurance policy that provides for at least fire and has an extended coverage endorsement.
- The policy must cover 100% of the insurable replacement cost of the entire project, including the individual units.
- Deductible not to exceed 5% of the policy. If policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), deductible must not exceed 5% of the policy.
- Operating reserve accounts must include funds to cover the deductible amounts for the condominium project.

### Acceptable Rating Categories

Luxury Mortgage Corp. will accept hazard insurance policies from a carrier rated:

- A.M. Best Company - "B" or better financial strength rating in Best's Insurance Reports
- Demotech, Inc. - "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings
- Kroll Bond Rating agency - "BBB" or better rating in Kroll Bond Rating Agency's Insurance Financial Strength Rating (IFSR)
- Standard and Poor's Inc. - "BBB" or better insurer financial strength rating in Standard and Poor's Rating Direct Insurance Services.

Luxury Mortgage Corp. will accept policies underwritten by Lloyd's of London or Hawaiian Insurance and Guaranty Company even though they are not rated by one of the acceptable rating agencies. In addition, coverage obtained through state insurance plans is acceptable to Luxury Mortgage Corp., if that is the only coverage available.

### Amount of Coverage

Policy must include one of the following endorsements to ensure full insurable value replacement cost coverage:

- "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost
- "*Replacement Cost Endorsement*," under which the insurer agrees to replace the property up to a specified percentage over the policy limit, or agrees to replace the property regardless of the cost

Insurance should cover replacement cost of the project improvements, including the individual unit. Coverage does not need to include land, foundations or excavations or other items that are usually excluded from insurance coverage

Luxury Mortgage Corp. will not accept hazard insurance policies that limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril.

The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions.

### Flood Insurance

Luxury Mortgage Corp. will accept condominium flood insurance as detailed in Fannie Mae's Correspondent Seller Guide, Hazard and Flood Insurance.

### Title Insurance

Luxury Mortgage Corp. will require condominium title insurance as detailed in Fannie Mae's Correspondent Seller Guide.

### Fidelity

- Fidelity insurance is required for condominium projects consisting of more than 20 units.
- In those states that have statutory fidelity insurance requirements, Luxury Mortgage Corp. will accept the state fidelity insurance requirements.
- The owners' association must have blanket fidelity insurance coverage for anyone who either handles (or is responsible for) funds that it holds or administers, whether or not that individual receives compensation for services.
- The insurance policy should name the owners' association as the insured.
- A management agent that handles funds for the owners' association should be covered by its own fidelity insurance policy, which must provide the same coverage required by the HOA.
- The fidelity insurance policy should cover the maximum funds that will be in the custody of the owners' association or its management agent at any time while the policy is in force.

### Directors and Officers Liability Insurance

- The owners' association must have blanket Directors and Officers insurance policy payable to the Directors and Officer of a company or to the Organization(s) itself as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers such loss as a of a legal action brought for alleged wrongful acts in their capacity as directors and officers. Such

coverage can extend to defense costs arising out of criminal and regulatory investigations/trials as well; in fact, often civil and criminal actions are brought against directors/officers simultaneously

- The minimum policy is to cover \$1 million per occurrence

### Liability Insurance

- The HOA must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. This insurance should also cover commercial spaces that are owned by the HOA, 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 coverage should be at least \$1 million for bodily injury and property damage for any single occurrence and the owners' association must be the named insured.
- If the policy does not include "severability of interest" in its terms, Luxury Mortgage Corp. requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the owners' association or of other unit owners.
- 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 on an individual unit in the project.

### Additional Coverage

The association must also carry any additional coverage commonly required for developments similar in construction, location and use, including the following where applicable and available:

- An Umbrella/Excess liability policy is required for projects with elevators.
- comprehensive automobile liability,
- Bailee's liability,
- elevator collision liability,
- garage keeper's liability,
- host liquor liability,
- workers' compensation and employer's liability, and
- contractual liability.

The insurer's limit of liability per occurrence for personal injury, bodily injury, or property damage under the terms of the above coverages must be at least \$1 million and the owners' association must be the named insured.

Appendix C: LTV Grids (Tier 1, 2 ,3)

Tier One										
Tier 1 Definition (by prop type)										
SFR: All Lending Areas										
2-4 Units: NYC Counties										
Warrantable Condos: Allowed in all geographies										
Coops: Not Allowed										
Purchase/Rate and Term Refinance Transactions										
Primary Residence				Second Home				Investment Properties		
Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO		Loan Amount	CLTV*	FICO
\$ 1,000,000	75%	700		\$ 1,000,000	70%	700		\$ 1,000,000	70%	700
\$ 1,500,000	75%	720		\$ 1,500,000	70%	720		\$ 1,500,000	70%	720
\$ 1,500,000	70%	700		\$ 1,500,000	65%	700		\$ 1,500,000	65%	700
\$ 2,000,000	75%	740		\$ 2,000,000	70%	740		\$ 2,000,000	70%	740
\$ 2,000,000	65%	720		\$ 2,000,000	60%	720		\$ 2,000,000	60%	720
*Rate and Term Refinance: -5% CLTV										
Cash Out Refinance Transactions										
Primary Residence				Second Home				Investment Properties		
Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO
\$ 1,000,000	70%	700		\$ 1,000,000	60%	700		Not Allowed		
\$ 1,500,000	70%	720		\$ 1,500,000	60%	720				
\$ 2,000,000	70%	740		\$ 2,000,000	60%	740				
\$ 2,000,000	60%	720		\$ 2,000,000	50%	720				
Notes:			Notes:							
Cash Out Proceeds Max: \$500,000			Cash Out Proceeds Max: \$500,000							
Cash Out Proceeds >\$300k: -5% CLTV			Cash Out Proceeds >\$300k: -5% CLTV							
All Occupancies, All Transactions										
Blind Trust/LLC			Max 75 CLTV							
Declining Markets			-5% CLTV							
Unique Properties			-5% CLTV							
NYC Metro Counties:			New York, Queens, Bronx, Kings and Richmond							

Tier Two										
Tier 2 Definition (by prop type)										
SFR: NA										
2-4 Units: Non-NYC Counties										
Non-Warrantable Condos: Allowed in all geographies*										
*See rate sheet for any pricing implications that may apply and LTV limitations										
Coops: Not Allowed										
Purchase/Rate and Term Refinance Transactions										
Primary Residence				Second Home				Investment Properties		
Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO		Loan Amount	CLTV*	FICO
\$ 1,000,000	70%	700		\$ 1,000,000	65%	700		\$ 1,000,000	65%	700
\$ 1,500,000	65%	720		\$ 1,500,000	60%	720		\$ 1,500,000	60%	720
\$ 1,500,000	55%	700		\$ 1,500,000	50%	700		\$ 1,500,000	50%	700
\$ 2,000,000	70%	740		\$ 2,000,000	65%	740		\$ 2,000,000	65%	740
\$ 2,000,000	60%	720		\$ 2,000,000	55%	720		\$ 2,000,000	55%	720
*Rate and Term Refinance: -5% CLTV										
Cash Out Refinance Transactions										
Primary Residence				Second Home				Investment Properties		
Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO		Loan Amount	CLTV	FICO
\$ 1,000,000	65%	700		\$ 1,000,000	55%	700		Not Allowed		
\$ 2,000,000	65%	740		\$ 2,000,000	55%	740				
\$ 2,000,000	55%	720		\$ 2,000,000	50%	720				
Notes:			Notes:							
Cash Out Proceeds Max: \$500,000			Cash Out Proceeds Max: \$500,000							
Cash Out Proceeds >\$300k: -5% CLTV			Cash Out Proceeds >\$300k: -5% CLTV							
All Occupancies, All Transactions										
Blind Trust/LLC			Max 75 CLTV							
Declining Markets			-5% CLTV							
Unique Properties			-5% CLTV							

Tier Three								
Tier 3 Definition (by prop type)								
SFR: NA								
2-4 Units: NA								
Special Approval Condos: Allowed*								
*See rate sheet for any pricing implications that may apply and LTV limitations								
Coops: Not Allowed								
Purchase/Rate and Term Refinance Transactions								
Primary Residence			Second Home			Investment Properties		
Loan Amount	CLTV	FICO	Loan Amount	CLTV	FICO	Loan Amount	CLTV*	FICO
\$ 1,000,000	65%	700	\$ 1,000,000	60%	700	\$ 1,000,000	60%	700
\$ 1,500,000	60%	720	\$ 1,500,000	55%	720	\$ 1,500,000	55%	720
\$ 1,500,000	55%	700	\$ 1,500,000	50%	700	\$ 1,500,000	50%	700
\$ 2,000,000	65%	740	\$ 2,000,000	60%	740	\$ 2,000,000	50%	740
\$ 2,000,000	55%	720	\$ 2,000,000	50%	720	*Rate and Term Refinance: -5% CLTV		
Cash Out Refinance Transactions								
Primary Residence			Second Home			Investment Properties		
Loan Amount	CLTV	FICO	Loan Amount	CLTV	FICO	Loan Amount	CLTV	FICO
\$ 1,000,000	60%	700	\$ 1,000,000	50%	700	Not Allowed		
\$ 2,000,000	60%	740	\$ 2,000,000	50%	740			
\$ 2,000,000	50%	720	\$ 2,000,000	45%	720			
Notes:			Notes:					
Cash Out Proceeds Max:		\$500,000	Cash Out Proceeds Max:		\$500,000			
Cash Out Proceeds >\$300k:		-5% CLTV	Cash Out Proceeds >\$300k:		-5% CLTV			
All Occupancies, All Transactions								
Blind Trust/LLC		Max 75 CLTV						
Declining Markets		-5% CLTV						
Unique Properties		-5% CLTV						