



Luxury Mortgage Corp.®

Simple Access Product Suite
Underwriting Guidelines-Wholesale
Version 6.4

May 6th, 2022

Chapter 1: Introduction.....	9
Section 1.1: Underwriting Philosophy	9
Section 1.2: Guideline Overview	9
Chapter 2: Applicant Eligibility.....	9
Section 2.1: United States Citizens.....	9
Section 2.2: Permanent Resident Alien.....	9
Section 2.3: Non-Permanent Resident Alien	10
Section 2.4: First Time Home Buyers	10
Section 2.4.1: Full Documentation	10
Section 2.4.2: Bank Statements.....	10
Section 2.4.3: 1099 Only.....	10
Section 2.4.4: Asset Qualifier.....	10
Section 2.4.5: Investor Cash Flow	11
Section 2.5: Non-Occupant Co-Applicants	11
Section 2.5.1: Full Documentation	11
Section 2.5.2: Bank Statements.....	11
Section 2.5.3: 1099 Only.....	11
Section 2.5.4: Asset Qualifier.....	11
Section 2.5.5: Investor Cash Flow	12
Section 2.6: Foreign Nationals	12
Chapter 3: Eligible Transactions	12
Section 3.1: Purchase Money Transaction	12
Non-Arm's Length Purchase.....	12
Section 3.2: Rate/Term Refinance Transaction	12
Technical Refinance aka Delayed Financing.....	13
Section 3.3: Cash-Out Refinance Transaction.....	13
Section 3.4: CEMA.....	14
Section 3.5: Geographic Eligibility	14
Section 3.5.1: Texas Cash Out Refinances aka Texas Home Equity Loans.....	14
Section 3.5.2: Refinancing an Existing Texas Home Equity Loan.....	16
Chapter 4: Occupancy	16
Section 4.1: Primary Residence.....	16
Section 4.2: Second Home	16
Section 4.3: Investment Property	16
Chapter 5: Income.....	16
Section 5.1: Full Documentation	16
Section 5.1.1: General Policy.....	16
Section 5.1.2: Salaried Applicants	17

Section 5.1.3: Self-Employed Applicants	21
Section 5.1.4: Asset Utilization.....	23
Section 5.1.5: Other Income Sources	24
Section 5.1.6: Unacceptable Sources of Income	32
Section 5.1.7: Tax Transcripts	32
Section 5.2: Bank Statements.....	33
Section 5.2.1: Product Eligibility.....	33
Section 5.2.2: Bank Statement Types.....	34
Section 5.2.3: Non-Sufficient Funds (NSFs)	36
Section 5.2.4: Income Trend	36
Section 5.2.5: Co-Applicant Income.....	37
Section 5.2.6: Other Income Sources	37
Section 5.3: 1099 Only Product	39
Section 5.3.1: Product Eligibility.....	39
Section 5.3.2: Income Calculation Methods.....	40
Section 5.3.3: Co-Applicant Income.....	40
Section 5.3.4: Other Income Sources	40
Section 5.4: Asset Qualifier	42
Section 5.4.1: Product Eligibility.....	42
Section 5.4.2: Asset Calculations and Requirements	42
Section 5.5: Investor Cash Flow	44
Section 5.5.1: Product Eligibility.....	44
Section 5.5.2: Qualification	45
Chapter 6: Assets.....	48
Section 6.1: Down Payment.....	48
Section 6.2: Reserves	48
Section 6.2.1: Full Documentation	48
Section 6.2.2: Bank Statements.....	49
Section 6.2.3: 1099 Only.....	49
Section 6.2.4: Asset Qualifier (Method 3 Only).....	49
Section 6.2.5: Investor Cash Flow	49
Section 6.2.6: Foreign National.....	49
Section 6.3: Asset Eligibility	50
Annuities/Cash Value of Life Insurance	50
Borrowed Funds - Secured	50
Business Assets.....	50
Checking, Savings or Share Accounts.....	50
Proceeds from a Cash-Out Refinance	51

Certificates of Deposit (CD)	51
Custodial Accounts for Children or Others.....	51
Cryptocurrency Assets	51
Foreign Deposit.....	51
Gift Funds.....	51
Marketable Bonds and Securities	52
Non-Borrowing Titleholders.....	52
Stock Options - if Exercisable	52
Proceeds from Sale of Applicant’s Personal Assets	53
Proceeds from Sale of Real Estate	53
Proceeds from the Pending Sale of Real Estate.....	53
Relocation Benefits	53
Rental or Lease Credits	54
Repayment of a Loan.....	54
Retirement Accounts.....	54
Tax Deferred Exchange (1031 exchange)	54
Trust Account Funds	55
U.S. Savings Bonds	55
Section 6.4: Ineligible Asset Types	55
Chapter 7: Credit Requirements	56
Section 7.1: Trade Line Requirement	56
Section 7.1.1: U.S. Citizen Living Overseas	56
Section 7.1.2: Applicants with Insufficient Trade Lines.....	56
Section 7.1.3: Unmarried Joint Applicants	57
Section 7.2: Credit Score Used for Underwriting	57
Section 7.3: Credit Inquiries	57
Section 7.4: Housing Payment History	57
Rental History.....	58
Mortgages/HELOCs	58
Section 7.5: Significant Derogatory Credit Events.....	58
Mortgage Tradelines in Forbearance.....	58
Non-Mortgage Trade Lines in Forbearance.....	59
Section 7.6: Judgment/Tax Lien	59
Section 7.7: Collections/Charge-Offs.....	59
Section 7.8: Disputed Accounts	59
Section 7.9: Other Derogatory Credit.....	60
Section 7.10: Credit Counselling.....	60
Section 7.11: Public Record Search	60

Chapter 8: Liabilities.....	60
Section 8.1: Alimony/Child Support/Separate Maintenance	61
Section 8.2: Installment Debt (including Mortgages)	61
Section 8.3: Revolving Debt (including HELOC).....	62
Section 8.4: Student Loans	62
Section 8.5: Business Debt in Applicant’s Name	62
Section 8.6: Court-Ordered Assignment of Debt	63
Section 8.7: Co-Signed Loans	63
Section 8.8: Lease Payments	63
Section 8.9: Relocation Benefits	63
Section 8.10: Deferred Installment Debt	63
Section 8.11: Loans Secured by Financial Assets.....	64
Section 8.12: Sale of Departing Residence	64
Chapter 9: Property.....	64
Section 9.1: Acceptable Property Types.....	64
Section 9.1.1: Texas Home Equity Loans.....	64
Section 9.2: Unacceptable Property Types.....	65
Section 9.3: Appraisal Requirements.....	66
Number of Appraisals Required.....	66
Age of Appraisal.....	66
Determining Collateral Value	66
Section 9.4: Condominiums	67
Section 9.4.1: Non-Warrantable Condominiums.....	68
Section 9.5: Mixed Use Properties.....	68
Section 9.6: Agriculturally Zoned Properties.....	69
Section 9.7: Unpermitted Additions.....	69
Section 9.8: Deferred Maintenance	69
Section 9.9: Escrow Holdbacks.....	69
Section 9.10: Properties with Security Bars.....	69
Section 9.11: Deed Restricted Properties	70
Section 9.12: Leasehold Properties	70
Additional Requirements	71
Section 9.13: Land Contracts.....	72
Purchase Transaction Requirements.....	72
Refinance Transaction Requirements.....	72
Section 9.14: Interested Third Party Contributions	72
Seller Credit/Financing Contributions	73
Section 9.15: Properties Recently Listed for Sale	73
Section 9.16: Declining Markets	73

Chapter 10: Underwriting Requirements.....	73
Section 10.1: ARM Features	74
Section 10.2: Loan Term.....	74
Section 10.3: Qualifying Ratios	74
Fixed Rate Loans	74
Amortizing ARM Loans	74
Interest Only Loans	74
Section 10.4: Debt To Income Ratio (DTI).....	74
Section 10.5: Loan To Value and Combined Loan To Value Calculations	75
LTV Ratio	75
CLTV Ratio.....	75
Section 10.6: Subordinate Financing	75
Section 10.7: Limitations on Other Real Estate Owned.....	76
Section 10.8: Short Sale	76
Short Sale Fee Documentation	76
Section 10.9: Power of Attorney	77
Section 10.10: Prepayment Penalties	77
Section 10.11: Regulatory Requirements	78
Higher Priced Mortgage Loan (HPML).....	78
High Cost Loans.....	78
Points and Fees	78
Section 10.12: Exceptions.....	78
Section 10.13: Mortgage Insurance	78
Section 10.14: Minimum/Maximum Loan Amounts	79
Standard Applicants	79
Foreign National Applicants	79
Chapter 11: Title Vesting.....	79
Section 11.1: Individual Names.....	79
Section 11.2: Living Trust.....	79
General Requirements	79
Legal Requirements for Revocable Trusts.....	80
Section 11.3: Blind Trust	80
Legal Requirements for Blind Trusts.....	80
Required Verbiage for Blind Trusts	80
Section 11.4: Land Trusts	80
Section 11.5: Limited Liability Company (“LLC”)	81
Documentation Requirements.....	81
Section 11.6: Partnerships and Corporations (not LLC’s)	82

Documentation Requirements.....	82
Chapter 12: Insurance.....	82
Section 12.1: Hazard Insurance.....	82
Attached PUD Specific Hazard Insurance Requirement	83
Acceptable Rating Categories.....	83
Amount of Coverage	83
Rent Loss Coverage	84
Acceptable Terms	84
Deductible	84
Lender Placed Coverage	84
Section 12.2: Flood Insurance	84
Flood Zone Determination.....	84
Coverage and Deductibles.....	84
Section 12.3: Title Insurance.....	85
Required Information.....	86
Title Policy Requirements	86
Acceptable Title Exceptions	86
Survey Requirements.....	86
Section 12.4: Condominium Insurance Requirements	87
Master/Blanket Insurance Policy.....	87
Hazard Insurance.....	87
Acceptable Rating Categories.....	87
Amount of Coverage	87
Flood Insurance	88
Title Insurance.....	88
Fidelity	88
Directors and Officers Liability Insurance	88
Liability Insurance	88
Chapter 13: Foreign National Applicants	89
Section 13.1: Visa Requirements.....	89
Section 13.2: Credit Requirements	90
Section 13.3: Income	90
Foreign Full Documentation	90
Asset Qualifier.....	90
Investor Cash Flow	90
Section 13.4: Liabilities	91
Section 13.5: Assets	91
Section 13.6: Know Your Customer.....	91

Section 13.7: Automated Clearing House (ACH) Requirement	91
Section 13.8: Translation Requirements	91
Section 13.9 Escrows	91
Exhibit A: Acceptable Bank List for Foreign National Asset (Globally Systemically Important Financial Institutions)	92
Exhibit B: LTV/FICO/Loan Amount Matrices (All Products, Standard Applicants)	93
Exhibit C: LTV/FICO/Loan Amount Matrices (Foreign National Applicants)	96
Exhibit D: Age of Docuemntation	97

Chapter 1: Introduction

Section 1.1: Underwriting Philosophy

Luxury Mortgage takes a common sense approach to underwriting an Applicant's creditworthiness to determine both an Applicant's willingness and ability to repay the loan. Each Applicant has a different situation, and each loan is weighed on its own merits. Our goal is to help Applicants who represent sound credit risks with their financing needs while mitigating risk for the company. Sound credit decisions are made based on weighing the following factors (the four C's of Credit):

- Cash/liquidity,
- Capacity/ability to handle the debt,
- Credit/history of repayment, and
- Collateral/property being secured.

The Simple Access suite consists of products that may fall outside of QM guidelines and may represent a higher level of risk. Luxury Mortgage will only approve loans for which the company, in its sole opinion, has a reasonable belief that the Applicant has the ability to repay the subject loan. This reasonable belief is based upon information provided by the Applicant(s) and/or independently verified by a third party. Any irregularity in Applicant profile, documentation provided, or property used to support the debt may be cause for further due diligence and/or denial of the loan.

Section 1.2: Guideline Overview

Loans meeting the parameters outlined in these guidelines are consistent with the Dodd Frank Wall Street Reform and Consumer Protection Act's requirement that an Applicant have the Ability-to-Repay the mortgage loan. Documentation standards are designed so that loans are made to Applicants who have demonstrated the ability and have the wherewithal to repay the debt. These programs require review and verification of documentation to ensure that the loan meets Ability-to-Repay (ATR) standards as defined in 12 CFR 1026.43. In regard to any underwriting criteria not specifically addressed in this document, Fannie Mae standards apply.

NOTE: Loans that are eligible for sale to a government-sponsored enterprise (GSE) – the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) – are ineligible for any Simple Access series program.

Chapter 2: Applicant Eligibility

Section 2.1: 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).

Section 2.2: 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. The Applicant must present either an unexpired I-551 card or temporary I-551 stamp on an unexpired foreign passport.

Section 2.3: Non-Permanent Resident Alien

Non-Permanent Resident Aliens holders of following visa categories are eligible for financing: E, G, H, L, O, P, and TN visa. Applicants 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 (for Applicants relying on full documentation income to qualify) and meet all other Simple Access guidelines based on the specific product. Non-Permanent Resident Aliens are eligible for the Investor Cash Flow product at a maximum 75 LTV.

Section 2.4: First Time Home Buyers

A First Time Home Buyer is defined as an individual who has not had individual ownership interest in a residential property within the last three years. First Time Home Buyers are eligible for financing under the Simple Access programs under the following criteria. These guidelines only apply when all Applicants are First Time Home Buyers, except as otherwise specified. Applicants who own their current primary residence or another property free and clear are not considered First Time Home Buyers under these guidelines and are subject to standard provisions.

Section 2.4.1: Full Documentation

Eligible with a documented a 12 month rental history within the three years prior to application showing 0x30. An Applicant currently living rent free but who can document an acceptable rent payment history described in the preceding sentence is eligible under standard guidelines. Those Applicants who cannot show a 12 month rental payment history, which includes rent free, are allowed on a primary residence or second home only, max 80 LTV, and the Applicant must contribute a minimum of 10% of the purchase price from own funds. Note that the rent payment history must be the most recent one available.

Section 2.4.2: Bank Statements

Eligible with a documented a 12 month rental history within the three years prior to application showing 0x30. An Applicant currently living rent free but who can document an acceptable rent payment history described in the preceding sentence is eligible under standard guidelines. Those Applicants who cannot show a 12 month rental payment history, which includes rent free, are allowed on a primary residence or second home only, max 80 LTV, and the Applicant must contribute a minimum of 10% of the purchase price from own funds. Note that the rent payment history must be the most recent one available.

Section 2.4.3: 1099 Only

Eligible with a documented 12 month rental history within the three years prior to application showing 0x30. An Applicant currently living rent free but who can document an acceptable rent payment history described in the preceding sentence is eligible under standard guidelines. Those Applicants who cannot show a 12 month rental payment history, which includes rent free, are allowed on a primary residence or second home only, max 80 LTV, and the Applicant must contribute a minimum of 10% of the purchase price from own funds. Note that the rent payment history must be the most recent one available.

Section 2.4.4: Asset Qualifier

Eligible with a documented a 12 month rental history within the three years prior to application showing 0x30. An Applicant currently living rent free but who can document an acceptable rent payment history described in the preceding sentence is eligible under standard guidelines. Those Applicants who cannot show a 12 month rental payment history, which

includes rent free, are allowed on a primary residence or second home only, max 80 LTV, and the Applicant must contribute a minimum of 10% of the purchase price from own funds. Note that the rent payment history must be the most recent one available.

[Section 2.4.5: Investor Cash Flow](#)

Not allowed. Instances where one or more Applicants is a first time home buyer are reviewed case by case. Additionally, at least one Applicant must have a 12 month history of managing rental properties. The history does not need to be in the most recent three year period. See [Income](#) section for more detail.

[Section 2.5: Non-Occupant Co-Applicants](#)

Loans with non-occupant Co-Applicants are eligible for financing under the Simple Access product suite. A non-occupant Co-Applicant is defined as an individual who provides additional financial strength and stability to an Applicant who is unable to qualify on their own based on the underwriting guidelines. They may, but are not required to, take title to the subject property along with the occupant Applicant. All Applicants must meet credit requirements outlined in the [Credit](#) section of the Underwriting Guidelines. The product specific requirements for a non-occupant Co-Applicant are as follows:

[Section 2.5.1: Full Documentation](#)

- **Method 1** | Reduce LTV by 5% (max 75). Fully blend income and assets, or
- **Method 2** | Occupant Applicant contributes 5% of own funds to transaction if a purchase. Front end ratio not to exceed 60% HTI on all transactions. No reduction to LTV. Blend income to determine back end ratio, non-occupant Co-Applicant may contribute remaining funds to close and reserves.

[Section 2.5.2: Bank Statements](#)

- **Method 1** | Reduce LTV by 5% (max 75). Fully blend income and assets, or
- **Method 2** | Occupant Applicant contributes 5% of own funds to transaction if a purchase. Front end ratio not to exceed 60% HTI on all transactions. No reduction to LTV. Blend income to determine back end ratio, non-occupant Co-Applicant may contribute remaining funds to close and reserves.

[Section 2.5.3: 1099 Only](#)

- **Method 1** | Reduce LTV by 5% (max 75). Fully blend income and assets, or
- **Method 2** | Occupant Applicant contributes 5% of own funds to transaction if a purchase. Front end ratio not to exceed 60% HTI on all transactions. No reduction to LTV. Blend income to determine back end ratio, non-occupant Co-Applicant may contribute remaining funds to close and reserves.

[Section 2.5.4: Asset Qualifier](#)

Non-occupant Co-Applicant must be a relative. For purposes of these guidelines, a relative is defined as someone who had a relationship to the primary Applicant by blood, law, or marriage. Non-occupant Co-Applicant's debt service must be included in debt service calculation for determining qualification. Only permissible on a purchase or rate and term transaction.

- **Method 1** | Reduce LTV by 5% (max 75). Utilize all assets, or
- **Method 2** | Occupant Applicant must contribute 5% of own funds to transaction (purchase transaction only)

[Section 2.5.5: Investor Cash Flow](#)

Not applicable

[Section 2.6: Foreign Nationals](#)

Foreign National Applicants are eligible, see [Chapter 13](#) for details and requirements.

Chapter 3: Eligible Transactions

The eligible transactions are defined as follows:

[Section 3.1: 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. A purchase transaction where there is no defined relationship between the buyer and the seller is deemed to be arm's length in nature. Luxury Mortgage will allow an Applicant to have a purchase contract assigned to them via a bona fide assignment from a third party. The purchase price to be utilized to underwrite will be the original purchase price of the property per the purchase agreement, any assignment fees must be paid by the Applicant.

[Non-Arm's Length Purchase](#)

A Non-Arm's Length transaction is one in which there is a direct personal or financial relationship amongst the parties, including but not limited to the buyer, the seller, the real estate agent, the appraiser, the realtor, the mortgage loan originator and/or the originating entity. Generally, the following transactions are typically considered to be "Arm's Length" in nature even though they are between relative, such as - spousal buyout due to divorce, interest buyout of an inherited property, or a gift of down payment when the source is from a relative's equity in the sale of the subject property. Additional due diligence up to and including additional appraisal products may be required. The Applicant may not have multiple roles in the transaction i.e., they may not be both the builder of the property and the Applicant on the transaction. A gift of equity is acceptable as a source of funds to close. The Applicant must state their relationship to the seller. If the seller is a relative, they must also document the most recent 12 months' payment history on the property's existing mortgage, if any. See [Gifts](#) for additional information on this section.

[Section 3.2: 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.

All refinances must meet any and all Net Tangible Benefit requirements in accordance with applicable state and federal regulation, as determined by Luxury Mortgage. There is no title seasoning requirement for a rate and term refinance. A transaction which meets one of the below criteria may be deemed a Rate/Term Refinance Transaction:

- 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 6 months that has not had draws > \$5,000 in the past 6 months,
- The maximum cash out cannot exceed the lesser of 2% of the balance of the new refinance mortgage loan, or \$5,000,
- Buying out a co-owner or beneficiary pursuant to an agreement acceptable in its form to Luxury Mortgage. A stipulation of settlement and/or divorce decree is acceptable to meet this requirement. The Applicant does not need to be a signer on the current note.

Technical Refinance aka Delayed Financing

- Recoupment of funds expended to purchase a property acquired for cash within the 6 months prior to application date. The closing statement evidencing a cash sale must be provided and evidence of the source of funds used to purchase must be documented as the Applicant's own. Recoupment of gift funds is deemed to be cash out. Max proceeds not to exceed Applicant's documented investment. The value utilized for LTV calculation will be the lower of the purchase price plus the documented cost of improvements or appraised value, or
- Recoupment of funds expended to improve the subject property. Improvements must have been completed within the last six months preceding the application date, funds must have been Applicant's own. Cash out amount not to exceed documented improvement costs, otherwise the transaction will be deemed cash out and the amount of cash out measured by the proceeds to the Applicant above and beyond the documented costs. Value utilized for LTV calculation would be the current appraised value, unless purchased in the last 12 months in which case see [determining collateral value](#). Acceptable documentation would include copies of invoices for work completed along with proof of payment by the Applicant.

The last two bullets may be combined, and the transaction treated as a rate and term refinance provided cash proceeds to the Applicant do not exceed the Applicant's documented cash investment.

Section 3.3: Cash-Out Refinance Transaction

If the proceeds to the Applicant exceed the lesser of \$5,000 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. There is no limit to the amount of cash out an Applicant may receive at LTVs up to 75. Above 75 LTV, the maximum permitted cash out to the Applicant is \$500k. Amounts used to pay off an unseasoned subordinate lien are deemed part of the cash out proceeds regardless of amount of cash in hand Applicant receives. **No seasoning is required, however limit value utilized to lower of purchase price or appraised value for properties owned less than 6 months, properties must be arm's length purchase and we must be able to document/verify the source of funds used to purchase. Any over 6 months follow standard underwriting guidelines.** Transfers from a trust, LLC, partnership, or corporation where the Applicant is a 50% or greater owner are exempt from the 6 month waiting period, provided the Applicant has had greater than or equal to 50% beneficial interest in the property for at least 6 months.

All refinances must meet any and all Net Tangible Benefit requirements in accordance with applicable state and federal regulation.

Section 3.4: CEMA

New York Consolidation, Extension & Modification Agreement (CEMA)

For all Luxury Mortgage products, property located in the state of New York may be structured as a Consolidation, Extension, and Modification Agreement (CEMA) transaction. The most current version of Fannie Mae/Freddie Mac Uniform Instrument (Form 3172) must be used. The following documentation must be provided:

- NY Consolidation, Extension and Modification Agreement (Form 3172)
- Original Note(s) – Original documents signed by the Applicant
- Gap Note and Gap Mortgage, if applicable
- Consolidated Note – Original documents signed by the Applicant
- Exhibit A – Listing of all Notes & Mortgages being consolidated, extended, and modified
- Exhibit B – Legal description of the subject property
- Exhibit C – Copy of the consolidated Note
- Exhibit D – Copy of the consolidated Mortgage

Lost Note Affidavits may be accepted on a case by case basis.

Section 3.5: Geographic Eligibility

Properties in the following states are eligible for the Simple Access product suite:

AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, IL (no IO loans), LA, MA, MD, ME, MI, MN, NH, NC, NJ, NM, NY, OH, OR, PA, RI, SC, TN, TX (see below for Cash Out loans), UT, VA, WA, WI, WY.

Loans that fall under the definition of New York Subprime Home Loan are not eligible for the product. NY Subprime is defined as a primary residence where the loan amount is under the county's conforming limit (high balance if a high cost county, standard if not) where the APR is more than 1.75% above the comparable rate based on the Freddie Mac Mortgage Survey. This applies only to Full Documentation, Bank Statements, 1099 Only, and Asset Qualifier. See the applicable statute for additional information.

Section 3.5.1: Texas Cash Out Refinances aka Texas Home Equity Loans

Texas Cash Out Refinances are eligible. Any loan which falls under the scope of Article XVI, Section 50 must meet all applicable state law requirements, see the applicable statutes for additional information. The following requirements also apply for loans under the scope of Section 50(a)(6). In the event of conflict between these guidelines and applicable state law, state law shall govern.

- Max LTV/CLTV: the lesser of product guidelines or 80/80 (existing subordinate financing may be resubordinated except for a HELOC or reverse mortgage, which must be paid off)
- Max Points/Fees: 2% (see statutes for exclusions)
- All Applicants must be on title/occupy the subject property
- All closing documents must be reviewed by a licensed Texas attorney
- Interest Only not allowed on 50(a)(6) loans
- The property must be residential in nature. See [Property](#) for additional information
- A survey must be completed confirming the following:
 - Lot size
 - Evidence homestead property and any adjacent land are separate
 - Evidence of homestead and property is a separately platted and subdivided lot for which full ingress/egress is available
 - Properties must be served by municipal utilities, fire, and police protection
 - Homestead must be a separate parcel within permissible acreage

- A title insurance policy written on Texas Land Title Association (standard or short) including T42 and T42.1 endorsements. For self-employed applicants operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion. The title policy may not include language that:
 - Excludes coverage for a title defect that arises because financed origination expenses are held not to be “reasonable costs necessary to refinance”; or
 - Defines the “reasonable costs necessary to refinance” requirement as a “consumer credit protection” law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.
- The loan must be closed in a Texas title company’s office or attorney’s office. Mobile notaries are NOT permitted.
- All title holders must execute the loan application and Texas Home Equity Notice
- Non-Borrowing Spouses must execute the following:
 - Notice Concerning Extension of Credit
 - Security Instrument (including any Riders)
 - Federal Truth-in-Lending (TIL) Disclosure Statement
 - Right of Rescission Notice
 - Discount Point Disclosure
 - Acknowledgment of Fair Market Value
 - Premium Pricing Disclosure
 - Notice of Presentment of CD One Day Before Closing
 - Texas Home Equity Affidavit and Agreement
 - Owner’s Affidavit of Compliance
 - Receipt of Copies of Documents
 - Certificate of Non-Cancellation of Loan

Closed Loan Documentation Requirements

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

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

Section 3.5.2: Refinancing an Existing Texas Home Equity Loan

An existing Home Equity Loan may be refinanced as a non-home equity loan and secured with a loan against the subject property when the following conditions are met:

- The refinance occurs at least a year after the Home Equity Loan was closed
- The additional loan amount covers only costs of refinancing and does not provide the Applicant with cash proceeds
- The LTV/CLTV does not exceed 80
- All titleholders are provided the written notice required under Section (f)(2)(D) on a separate document no later than the third business day after the date the loan application is submitted and not less than 12 days before closing of the refinance.

Chapter 4: Occupancy

Section 4.1: 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.

Section 4.2: 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. Note that an Applicant may have more than one second home, so long as each is in a separate geographic area and meets the below requirements.

- 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 to 4 multifamily property types, and
- No rental income can be used to qualify the Applicant.

Section 4.3: Investment Property

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

Chapter 5: Income

Section 5.1: Full Documentation

Acceptable income documentation and calculation methods are as follows:

Section 5.1.1: General Policy

The income of each Applicant 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. Income from other sources can be considered when

properly verified and documented. 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.**

Section 5.1.2: Salaried Applicants

For purposes of this section, salaried Applicants are defined as those who own less than 25% of the business which is their primary income source.

Employment History & Stability Requirements

Applicants must generally have a two year history in their line of work. If an Applicant has less than 2 years' experience in their line of work, training or education in the same field is considered an acceptable substitute. Gaps of employment greater than 90 days must be explained in writing by the Applicant. Gaps of employment greater than 6 months require additional due diligence and a minimum two year history in the line of work prior to the gap. Job changes within the same line of work are not considered adverse factors so long as income is stable or increasing and gaps are addressed.

Minimum Documentation Requirements

The following documentation must be present in the loan to make a determination of a salaried Applicant's income:

- 30 consecutive days of paystubs, the most recent one dated within 120 calendar days of the note date, including year to date income, supporting income used to qualify
- Last two years' W-2s
- Written VOE (as necessary to determine any variable income sources)

In all cases, a Verbal VOE (dated within 10 days of the note date) must be completed

Note that Luxury Mortgage reserves the right to request tax returns and/or other documentation on any Applicant if in its discretion they are required to make an accurate determination of the Applicant's income.

Age of Documents

Paystubs, Written VOE: 120 days, subject to the above requirements

Verbal VOE: 10 days

Treatment of Income Sources

Base Income

Use 30 days' worth of paystubs to develop an average of income. Compare with year to date income and address any discrepancies. Underwriting may also, in its direction, require paystubs current through funding. Applicants who are subject to a temporary salary reduction must be able to qualify on the income most recently documented in file as of the closing date.

Bonus Income

Generally, an Applicant must have a two year history of bonus income from the same employer in order to consider the bonus as part of the qualifying income. If an Applicant has a 1-2 year history of earning bonus income, it may be considered acceptable with favorable factors to offset.

For example, an Applicant who switched jobs within the same line of work and has received one bonus from their current employer may be acceptable provided the Applicant can document a likelihood of continuance of bonus income at the new employer. An Applicant who has a history of receiving bonuses and switches within the same line of work may have their previous bonus

considered qualifying income if the new employer provides documentation on an expectation of bonus at the new job.

Bonus income must be separately documented and calculated.

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. Develop an average of overtime income for the past two years. Periods of receipt less than two years may be acceptable, provided the underwriter can justify and document the reason for using the income for qualifying purposes. In all cases, document receipt of year to date overtime income in line with or greater than the average being used to qualify.

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, an explanation must be provided by the Applicant, and it may be disqualified from consideration.

Length of Time Income Received	Requirement
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
Commission income earned for less than one year	Not considered effective income

Exceptions may be made for situations in which the Applicant’s compensation was changed from salary to commission within a similar position with the same employer. In all cases, document receipt of year to date commission income in line with or greater than the average being used to qualify.

Restricted Stock Units

Restricted stock units are shares offered by an Applicant’s employer to an Applicant as an additional form of compensation. The shares typically vest over a period of time. Once vested the Applicant may then liquidate them at any time. Restricted stock units are acceptable as a form of income provided the Applicant has a two year history of receipt and three year expectation of vesting continuance.

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 may be utilized as income if a two year history of vesting, and exercise can be documented and three year expectation of continuance.

Partial Year Paid Applicants

Certain Applicants (such as teachers or forest fire fighters) may be paid for only part of the year. The underwriter 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.

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 it is documented that the Applicant has worked the part-time job consistently for the past two years and plans to continue.
- Part-time income received for less than two years may be included as qualifying income, provided that the underwriter justifies and documents that the income is likely to continue.

Part-time income not meeting these requirements may not be used in qualifying. Underwriting may, in its discretion require additional documentation to support the use of part-time or seasonal employment.

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. Current receipt of tip income must be verified and be consistent with the tip income received in the previous two years.

Seasonal Income

In order to use seasonal job income (i.e., income based on annually recurring but temporary circumstance) as qualifying income, the income should have a two-year historical record and be verified via the Applicant's most recent pay stub and previous year's W2s. Examples of seasonal employment include 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 it can be documented that the Applicant has worked the same job for the past two years and expects to be rehired the next season. Additionally, if an Applicant has a history of seasonal employment and seasonal unemployment income, the unemployment income may be considered effective income per the requirements listed in the [Unemployment Compensation](#) section.

Employment Contracts/Raises

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 terms should be reasonable relative to the role. The Applicant must also meet employment stability standards as outlined above. Guaranteed performance raises and bonuses from an Applicant's current employer may also be considered under this section. 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, and
- The Applicant will start employment or begin receipt of the income (as applicable) within 60 days of closing

Family Owned Business

An Applicant who is 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 federal tax returns or a signed copy of the corporate federal tax return showing ownership percentage.

Recent Conversion from W-2 to 1099

An Applicant who has converted from a W-2 employee to a 1099 employee and does not yet have filed tax returns available may be considered under this program provided the following:

- They are in the same or a substantially similar role in a contractor position as they were in a W-2 employee,
- They are in the same industry, and
- They can provide a contract(s) which are customary to their industry stating their new terms of employment

When these conditions are met, the underwriter may consider the income stable. The Applicant must provide their last two year's tax returns in all cases as well as a year-end and/or year to date profit and loss statement and balance sheet (as applicable). The new 1099 income should be greater than or equal to their previous W-2 income. The underwriter should utilize the Applicant's last two year's W-2 income less 2106 expenses claimed to develop an average of income which the profit and loss statements should support. Expenses claimed on the profit and loss statement should be reasonable to the Applicant's line of work, provided they are not reimbursed per the Applicant's contractor. Two years employment in the same line of work prior to the conversion should also be verified.

Applicants Recently Converted to K-1

An Applicant who has recently been made a partner in their employer (typically, but not necessarily, a law firm, accounting firm, etc.) may also have their income considered stable. Applicants must provide their most recent two year's tax returns with all supporting documents and a copy of their partnership agreement. Income shall be calculated based on the most recent two years' W-2 income compared with any guaranteed payments they are to receive under their new compensation structure. Guaranteed payments being lower than previous W-2 income does not necessarily disqualify the use of an average of the W-2 income, however it may require additional due diligence be completed. A minimum of two years of employment in the same line of work must be verified.

Applicants who are switching employers AND changing from a W-2 to K-1 position may be considered under this guideline, provided the ownership interest in the new firm is of a minimal nature. The calculation of the income in this situation shall generally be the more conservative of guaranteed payments or historic income. A minimum of two years of employment in the same line of work must be verified.

Applicants who become a partner in their current employer with an ownership interest greater than or equal to 25% may also be considered under this guideline. In addition to two years of personal income tax returns, the company's most recent two years of tax returns must be provided to ensure no losses were incurred by the business which would need to be taken into account. A minimum of two years of employment in the same line of work must be verified.

Section 5.1.3: Self-Employed Applicants

For purposes of this section, Applicant is deemed to be self-employed when their primary income source is from a business that they have an ownership interest in which is 25% or greater.

Employment History & Stability Requirements

Applicants must generally have a two year history in their line of work. If an Applicant has less than 2 years' self-employment, a lesser history with a general minimum of one year may be acceptable provided the Applicant has a minimum 2 year previous history in the same line of work. Gaps of employment greater than 90 days must be explained in writing by the Applicant. Gaps of employment greater than 6 months require additional due diligence and a minimum two year history in the line of work prior to the gap. A CPA letter used to verify self-employment addressed to a broker (or To Whom it May Concern) is acceptable provided the information on the letter is re-verified either verbally or in writing by Luxury Mortgage prior to closing. The reverification shall be good for 60 days from the date it was completed.

Minimum Documentation Requirements

The following documentation must be present in the loan to make a determination of a self-employed Applicant's income:

- Most recent one or two years personal federal tax returns
- Any K-1s relating to self-employment listed on personal federal tax return(s) provided
- Most recent one or two years business federal tax returns for primary business(s) relied upon for qualifying
- Year end and/or year to date profit and loss statement and balance sheet for primary business(s) relied upon for qualifying, if the note date of the loan will be more than 120 days removed from the end date of the most recent tax returns provided.

Age of Documents

Paystubs (if utilized): 120 days, subject to the salaried Applicant requirement

Profit and loss statement/balance sheet: 120 days

CPA, EA, or licensed tax preparer letter or equivalent: 120 days

Treatment of Income Sources

Method One | One Year's Returns

Applicant provides the most recently filed one (1) year of personal and business federal tax returns along with an Applicant prepared profit and loss statement/balance sheet. Income is generally calculated based on the tax return and compared to the trend on the profit and loss. See below for instances where the income listed on the profit and loss statement may be included with qualifying income. The income trend should be stable or positive. If not, two years of returns must be provided. The tax returns provided should cover a 12 month period of self-employment.

Method Two | Two Year's Returns

Applicant(s) provide the most recently filed two (2) years of personal and business federal tax returns. Income is generally calculated based on a 24 month average of the tax returns provided if income is increasing and a 12 month average of the most recent year's returns if income is decreasing. See below for instances where the income listed on the profit and loss statement may be included with qualifying income. If income is decreasing, an explanation and/or additional documentation may be required. A year end and/or year to date profit and loss statement & balance sheet prepared by the Applicant may be required.

For either method of documenting self-employed income, the below may be added back to the Applicant's income calculation:

- Depreciation

- Amortization
- Pension contributions directly contributed to Applicant
- Any expense(s) that can reasonably be documented to be one time and non-recurring
- Net operating loss carryforwards from years prior to the tax returns provided
- Business expenses for debts already included in the DTI
- Business Use of Home
- Mileage

Use of Interim Financials to Determine Qualifying Income

A self-employed Applicant may include either year end or year to date financials as part of their qualifying income. Income will be averaged over the period of the tax returns and the profit and loss statements provided. The Applicant must provide their bank statements from the account utilized for their business for the period covered by the P&L and their bank statements must show deposits which support the P&L. Any significant changes to the income stream must be acceptably explained and/or documented in order to be considered.

Business Income not Used to Qualify

Luxury Mortgage does not require an Applicant to provide corporate/partnership tax return(s) or interim financials if the income generated by the entity is not considered to qualify. The underwriter must ensure that there are no losses from businesses that are not being considered. K-1s reflecting income on the tax return(s) which are not being used to qualify the Applicant and which do not reflect losses do not need to be provided. K-1's and business returns (as applicable) reflecting losses on the tax return years provided must be furnished by the Applicant.

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 a Schedule C with their personal tax returns which reflects their business' income.

Partnership

Partnership income is generally shown on Schedule K-1 and is filed with the Applicant's personal federal tax returns as well as with the partnership returns. If the Applicant or Applicants combined controls 25% or more of the business entity, the Applicant(s) will need to provide the entity(s) tax returns.

Corporation

If the Applicant, or Applicants combined, control 25% or more of the business entity, the Applicant(s) will need to provide the entity(s) tax returns.

Use of Profits from a Corporation

In addition to the self-employed income or salary paid to the Applicant(s) by the Corporation, net income from the corporation may be considered as additional qualifying income. In order to use business "net profits" from a Corporation as a qualifying income source, the Applicant(s) on the loan application must document receipt of the income during the time period of tax returns the Applicant provides. 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,

- 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's analysis of the business must also support that the business is capable of providing the Applicant(s) with the additional income.

Note that these requirements do not apply to an "S" Corp. Receipt of net income for those businesses is sufficiently documented by the K-1 the Applicant(s) receive.

Limited Liability Company (LLC)

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

Section 5.1.4: Asset Utilization

Distributions from Non-Retirement Accounts

Non-retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from non-retirement assets must be set up and one month's distribution received prior to closing. The following requirements must be met:

- Applicant(s) can provide supporting documentation verifying that they have had ownership of financial assets for a minimum of 12 months and that they have unrestricted access. Any deposits >10% of the face value of the account as of the most recent statement must be sourced and documented. Gift funds or other unacceptable deposits will be deducted from the total assets available.
- Distribution income cannot be used for qualification if there is any knowledge or documentation indicating that the distribution will terminate within the next three years.
- Assets accounts utilized to derive income (distributions) cannot be used for reserves or down payment, nor may income generated from the accounts (i.e., interest, dividends, capital gains) be used for qualifying in addition to distributions
- Distribution income from financial assets must be verified by providing all of the following:
 - Year-end statements for most recent year 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 the distributions.
 - Most recent two months' statements for account(s) utilized for distribution

Qualifying Balances

- Checking/Savings: 100%
- Marketable securities: 80%
- Retirement assets: See Below

Other assets may be used on a case-by-case basis based on Applicant's ability to access the funds without restriction or penalty. Account balances must be verified within 120 days of the note date, via statements or other verification of the account balance, unless more recent is required based on underwriter's discretion.

Calculation Method

Any distribution set up must have 84 months of continuance. Example: An Applicant has \$700,000 in qualified assets after application of discount. The maximum distribution that can be utilized would be \$8,333 per month (\$100,000 per year).

Distributions from Retirement Accounts

Retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from retirement assets must be set up and one month's distribution received prior to closing. The distribution must have at least 3 years' worth of

continuance at the time of closing based on qualifying balance. Utilize 80% of the vested value to determine the qualifying balance. The Applicant utilizing this income must be of retirement age. Account balances must be verified within 120 days of the note date, via statements or other verification of the account balance, unless more recent is required based on underwriter's discretion.

Passive Asset Utilization

Applicants with accumulated liquid assets who do not wish to set up asset distributions may be qualified by utilizing their assets divided by a 10 year (120 months) term and adding the result to monthly income. In order to determine the assets available under this guideline, calculate the qualified liquid assets available to the Applicant(s) less the funds needed for the transaction's funds to close and reserves. Utilize the haircuts calculated under the Asset section of this Underwriting Guideline. Assets utilized must be financial assets (cash/cash equivalents, marketable securities, retirement assets, etc.). **To meet asset requirements up to 10% of the assets utilized may come from cash out proceeds (this is only allowable on Methods 2 and 3)** Accounts utilized for Passive Asset Utilization may not be used for dividends, interest, capital gains, or other income sources. Account balances must be verified within 120 days of the note date, via statements or other verification of the account balance, unless more recent is required based on underwriter's discretion.

Section 5.1.5: Other Income Sources

Annuity

Annuity income is acceptable with a copy of the annuity contract or letters from the organization providing the income. The income must continue for three years from the closing date. Provide one of the following showing receipt of the income:

- The most recent year's W-2s, 1099s, or Federal Income Tax Returns, or
- 12 months bank statements reflecting regular deposits of the annuity income.

Capital Gains

If capital gains income is customary for Applicant's occupation and/or the Applicant has a constant turnover of assets resulting in gains or losses, capital gains may be considered as qualifying income. A two year history of capital gains income/losses must be documented by obtaining copies of the Applicant'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. Anticipated continuation of income must be verified through assets/property that can be sold in the future.

Example: Luxury Mortgage 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, documented earnings may generally be used. During periods of volatility or when verified earnings do not appear to be supported by current market conditions, the underwriter 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 must have been received for the past two years as verified by tax returns,
- Verification that the underlying cash deposits and/or securities still exist must be obtained within 30 days of closing, and
- Any required funds necessary for closing on the subject transaction must be subtracted prior to the calculation of interest/dividend income. If using the accounts for funds to close, impute a 3% return on the remaining assets with no amortization of the account balance.

Additionally:

- 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 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

K-1 Income

For Applicants relying upon K-1 income for qualification, generally the underwriter will utilize the income listed as Net Ordinary Income, Net Rental Income, Dividends, Interest, Capital Gains, or other pass through income sources. No history of distributions is required. If business returns are provided, the income figure may be adjusted utilizing the same criteria as described in [Treatment of Income Sources](#) for self-employed Applicants.

In instances where an Applicant has multiple investments in real estate entities or similar entities but does not own a sufficient percentage of the entity to be entitled to copies of the entity's returns, the underwriter may add distributions to the pass through net ordinary or net rental income (or loss) to determine the Applicant's cash flow. A two year history of distributions on K-1s (though not specifically from each entity) must be documented. The income should be averaged on a "per year" and not "per entity" basis. The following criteria must be met to utilize this calculation:

- The Applicant must be a limited partner (in the event of an LLC or partnership),
- The Applicant's ownership interest must be 24.99% or less,
- The Applicant must be a passive partner,
- The Applicant must have a two year history of receipt of distributions,
- The Applicant affirmatively states that there is no obligation for future capital contributions, and
- The Applicant affirmatively states that the amount of capital withdrawals is expected to continue in the future.

Notes Receivable Income

Principal and Interest income from a note receivable can be used to qualify. 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 (minimum three years), and
- Evidence that these payments have been consistently received for the last 12 months through tax returns and deposit slips and/or cancelled checks.

If the Applicant is not the original payee on the note, it must be established that the Applicant is now a holder in due course and able to enforce the note.

Rental/Investment Property Income

Rental income can be utilized as qualifying income by Applicants who own investment properties. Generally, the Applicant does not need a history of managing properties in order to rely upon rental income.

Method One | Tax Returns

Utilize the net figure on schedule E page 1 of most recent year's tax return adding back depreciation, amortization and interest claimed. Deduct the principal and interest component of the mortgage payment(s) tied to the property (if any). Current property tax, property insurance and homeowner's association dues expenses do not need to be documented. For purposes of

determining PITIA on non-subject rental properties owned, 1/12th of expenses claimed on the 1040's and not added back may be used.

Method 2 | Lease

Use 75% of current lease less documented PITIA (principal, interest, taxes, insurance, and homeowner's association dues). If lease is materially greater than income listed on tax return(s), Applicant to provide supporting explanation/documentation. An expired lease which has converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter from the Applicant outlining terms may be accepted. Document current receipt of the lease income within 60 calendar days of the note date with the most recent one month's check in all cases where a lease is utilized.

Any leases provided must be a minimum 12 month term, except as otherwise specified. Short term rents will be averaged over the most recent 12 month period, and leases must be in place. Gaps are acceptable, however the leases will still be averaged over a 12 month period. A 25% vacancy still applies if relying on leases to qualify.

In the event the subject transaction is a purchase transaction where one or more units are being transferred vacant, the appraiser's opinion of market rents as disclosed on the Comparable Rent Schedule may be used on the vacant units. If transferred subject to a lease agreement, provides copies of the leases. When relying upon leases or appraiser's opinion of market rents, a 25% vacancy factor must be applied to the gross rents and if leases are supplied the lesser of the two must be used.

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. Calculate as described in the preceding section. No management history is required.

Rent for the tenant-occupied units only may be considered gross income, only after deducting vacancy and/ or expenses. It may not be used as a direct offset to the mortgage payment.

Income from Roommates in a Single Family Property

Income from roommates in a single family property occupied as the Applicant's primary residence is not acceptable. Rental income from boarders, however, is acceptable if the boarders are related by blood, marriage, or law. The rental income may be considered effective if shown on the Applicant's tax return. If not on the tax return, rental income paid by the boarder may not be used in qualifying. Document receipt of rents within 60 calendar days of the note date if relying on a lease for qualification.

Principal Residence Being Vacated by an Applicant (a/k/a Departing Residence)

When an Applicant vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis. The Applicant needs to evidence sufficient equity in the vacated property defined by an LTV ratio of 75% or less. Equity can be evidenced by a residential appraisal no more than 6 months old, an automated valuation tool to be run by Luxury Mortgage's underwriter, or by comparing the unpaid principal balance against the original purchase price of the property. 75% of the monthly gross rental income less the property's PITIA is utilized for qualification. A properly executed lease agreement (that is, a lease signed by the Applicant and the lessee) of at least one year's duration after the loan is closed is required. Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner must also be provided.

Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income. On a purchase transaction, 75% of the appraiser's opinion of market rental income may be utilized unless the property will be transferred subject to a lease agreement for the accessory unit, in which case use the lesser of the two. On a refinance transaction, the rental income must be listed on the Applicant's tax returns AND supported by a lease, unless the underwriter can justify reliance upon a lease alone. Document receipt of rents within 60 days calendar days of the note date for a refinance if relying on a lease for qualification. When used on the subject property, the appraiser must be able to verify with the building department that the accessory unit is a.) legal and b.) may legally be rented.

Royalty/Lease Income (Other than Real Estate)

Lender must 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, and
- 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 federal tax return depending on the composition of the trust assets.

- Income from trusts may be used if guaranteed and if 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.

Alimony, Child Support, and Separate Maintenance Income

Generally, Luxury Mortgage requires proof of payment obligation for the past 6 months as evidenced by the divorce decree, a signed separation agreement, or a notarized agreement signed as is dictated by local custom. The underwriter will determine eligibility of usage based on an expectation of 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 one of the following:
 - 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 6 months, such as:
 - Cancelled checks,
 - Deposit slips,

- Tax returns, or
- Court records.

Notes:

- Periods less than 6 months may be acceptable, provided that the underwriter can adequately document the payer's ability and willingness to make timely payments.
- Child support and non-taxable alimony may be "grossed up" under the same provisions as non-taxable income sources.

Automobile Allowance and Expense Account Payments

An automobile allowance may be included in qualifying income provided evidence of receipt for two years is verified via either a written verification received from Applicant's employer or paystubs reflecting receipt. The Applicant's employer must confirm the payments will continue. The full amount of the allowance is added to the Applicant's monthly income and the full amount of the lease/loan payment is added to liabilities.

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). The underwriter 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 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

Government Assistance Programs

Income received from government assistance programs is acceptable as long as the income has been received for the previous 24 months and the paying agency provides documentation indicating that the income is expected to continue for at least three years. Copies of checks, award letters or grant statements are acceptable documentation.

Mortgage Credit Certificates

If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income. Either type of subsidy may be added to gross income, or used directly to offset the mortgage payment, before calculating the Qualifying Ratios.

Homeownership Subsidies

A monthly subsidy may be treated as income if an Applicant is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.

- If the Applicant is receiving the subsidy directly, the amount received is treated as income. The amount received may also be treated as nontaxable income and be “grossed up” by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the Applicant’s income from employment and/or other sources.
- Luxury Mortgage may treat this subsidy as an “offset” to the monthly mortgage payment (that is, reduce the monthly mortgage payment by the amount of the home ownership assistance payment before dividing by the monthly income to determine the payment-to-income and debt-to-income ratios). The subsidy payment must not pass through the Applicant’s hands. The assistance payment must be:
 - Paid directly to the servicing creditor, or
 - Placed in an account that only the servicing creditor may access.

Note: Assistance payments made directly to the Applicant must be treated as income.

Retirement/Pension Income

Retirement income must be verified from the former employer, custodian of the assets, or from federal tax returns. If any retirement income will cease within the first full three years of the mortgage loan, it may not be used in qualifying.

Retirement income and/or pension income must be verified using at least one of the following options:

- Written verification from the financial institution holding the assets/organization/company supplying the income,
- Copy of most recent award letter,
- Copies of the most recent 3 months check stubs evidencing consistent receipt of the income,
- Copies of the most recent 3 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 with 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. Any portion of the Social Security Income which is non-taxable can be grossed up by 25%. 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,
- 3 months bank statements that verify receipt of the benefits via direct deposit,
- 3 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.

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

Suffix	Description
A	Disability or retirement benefit
B	The person is still alive, and the spouse is receiving the benefit
C	Child Beneficiary
D	The person is deceased, and the surviving spouse is receiving the benefit

Supplemental Security Income

Supplemental Security Income may be included as qualifying income provided verification can be obtained by one of the following:

- A copy of the awards letter,
- 3 months bank statements that verify receipt of the benefits via direct deposit, or
- 3 months most recent monthly disbursement checks.
- Continuance of at least three years for Supplemental Social Security Income for “child beneficiary” must be evidenced.

If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

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

Veteran’s 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 lender obtained documentation from the VA.
- Education benefits used to offset education expenses are not acceptable.

If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Temporary Leave Income

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the Applicant’s employer. Applicants on temporary leave may or may not be paid during their absence from work. If the underwriter is made aware that an Applicant will be on temporary leave at the time of closing of the mortgage loan and that Applicant’s income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below:

- The Applicant’s employment and income history must meet standard eligibility requirements as described above
- The Applicant must provide written confirmation of his or her intent to return to work.
- Document the Applicant’s agreed-upon date of return by obtaining verification either from the Applicant or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave). See FNMA’s Selling Guide for examples of acceptable documentation. This documentation does not have to comply with the Allowable Age of Credit Documents policy.

- The lender must receive no evidence or information from the Applicant's employer indicating that the Applicant does not have the right to return to work after the leave period.
- The lender must obtain a verbal verification of employment. If the employer confirms the Applicant is currently on temporary leave, the lender must consider the Applicant employed. Furloughed Applicants do not follow this guideline section.
- The lender must verify the Applicant's income in accordance with the other provisions of this guide. The lender must obtain the amount and duration of the Applicant's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period and "regular employment income." The latter may include but is not limited to, the income the Applicant receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

Note: Income verification may be provided by the Applicant, by the Applicant's employer or by a third-party employment verification vendor.

Requirements for Calculating Income Used for Qualifying

If the Applicant will return to work as of the first mortgage payment date, the lender can consider the Applicant's regular employment income in qualifying.

If the Applicant will not return to work as of the first mortgage payment date, the lender must use the lesser of the Applicant's temporary leave income (if any) or regular employment income. If the Applicant's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. Note that these reserves would be in addition to any other reserves required under this guide.

Following are instructions on how to calculate the "supplemental income":

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

Total qualifying income = supplemental income plus the temporary leave income

Available liquid reserves = subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

Number of months of supplemental income: the number of months from the first mortgage payment date to the date the Applicant will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income. The total qualifying income that results may not exceed the Applicant's regular employment income.

The same assets utilized to meet the liquid reserve requirement for this section may not be used for asset distribution.

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 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.

Section 5.1.6: Unacceptable Sources of Income

Examples include, but are not limited to, the following:

- Temporary or non-recurring income
- Retained Earnings
- Educational Benefits
- Trailing Spouse/Co-Applicant income
- Income that cannot be verified, is not stable or will not continue.
- 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.
- Any income sources that are illegal under local, state and/or federal law
- Gains from trading Cryptocurrency
- **Foreign Bank Statements cannot be used for income purposes**

Section 5.1.7: Tax Transcripts

The W-2's, 1099's, and tax returns provided by an Applicant must be verified by the IRS. In the event the most recent year's information cannot be verified due to a recent filing, the income may be considered in accordance with the Full Documentation guidelines at underwriter discretion with the following documentation:

- Previous year's W-2's, 1099's, and/or tax returns/tax transcripts

<p>In the cases of tax return transcripts for most recent year not being available:</p>	<ul style="list-style-type: none"> • Proof of electronic filing or stamped copy showing received by the IRS • Proof of payment of any liability due • If a substantial increase in income is sought to be utilized for qualifying the Applicant an explanation must be provided. The underwriter will perform additional due diligence on the loan and may require additional documentation to substantiate the income shown on the returns.
<p>When Applicant is relying on W-2 income to qualify, and W-2 transcripts are not yet available</p>	<ul style="list-style-type: none"> • A WVOE or year end paystub is required to be provided in support of the W-2, based on underwriter's discretion

Transcripts are required for the broadest category of documentation provided. If an applicant provides solely W-2's or 1099's, those documents need to be validated. If an applicant provides 1040's in addition to W-2's or 1099's, then only the 1040's need to be validated.

Note: If transcripts are not available, we will require record of attempt to pull. (i.e., document showing no record found).

Section 5.2: Bank Statements

Section 5.2.1: Product Eligibility

In order to be eligible for the Bank Statements product, at least one Applicant on the loan must derive their primary income source from a self-employed activity. Self-employed is defined as ownership interest of 25% or greater.

Applicants generally must have been self-employed for at least two years in the same business. Co-Applicants who are not self-employed may provide supplemental income from other income sources. Applicants who have been self-employed less than two years, but not less than one year prior to application, are eligible with an additional six months of reserves and two years of previous experience in the same line of work. The applicant must provide at least 12 months of bank statements supporting their self-employment. Applicants self-employed less than two years must be underwritten with 12 months of bank statements.

A CPA, EA, or licensed tax preparer letter or equivalent document verifying self-employment must be provided in all cases. The letter is valid for 120 days.

The letter shall state:

- The name of the business (if there is one),
- The Applicant's percentage ownership,
- The length of self-employment, and
- That the business/Applicant are active and/or in good standing as may be the case per state reporting.

Note: The letter or alternate documentation must cover all above points.

Example of Alternate Documentation: For a Limited Liability Corporation (LLC), an operating agreement and Secretary of State Printout would meet the above requirements.

The existence of the business will also be verified by the Luxury Mortgage underwriting team. A letter addressed to a broker (Or To Whom it May Concern), it is acceptable provided the information on the letter is re-verified either verbally or in writing by Luxury Mortgage prior to closing. The reverification shall be good for 60 days from its effective date. The business' operations and revenues may also be re-verified prior to closing at underwriter's discretion to show consistency with the historic average shown on the bank statements used to underwrite the loan. The newest bank statements in the file must be no more than 120 calendar days old as of the note date, based on the end date of the statement.

An Applicant who is not truly self-employed but receives income from investments that they own (i.e., interest, dividends, trusts, distributions from partnerships where the Applicant is a limited partner, rental real estate, etc.) may be eligible for this program. There should not be evidence of significant employment income for the Applicant who is seeking eligibility for the bank statement program. Significant employment income appearing on the bank statements should only be from a Co-Applicant. An Applicant who falls under this guideline may only utilize personal bank statements. A CPA letter is not required to validate self-employment. 24 months

of bank statements are required for this guideline. The Applicant must be able to document the source of their investments to show continuance of income.

The below represents acceptable documentation:

- If the Applicant's income is derived primarily from dividends, interest, or capital gains, the Applicant should provide brokerage account statements confirming ownership of the assets,
- If the Applicant's income is derived primarily from through trust income, provide the trust agreement and/or trustee's statements, or
- If the Applicant's income is derived through other sources such as passive investments in partnerships, the Applicant should provide a detailed narrative on their income stream and a CPA's letter or other documentation confirming that the Applicant still owns the assets generating the income.
- If relying on rental income, see [Rental Income](#) section for calculation purposes. All other above requirements must still be provided including 24 months of personal bank statements.

Gift income is not eligible as a source of income under this product.

Any income sources that are illegal under local, state and/or federal law are not eligible under this product.

[1099 Contractor](#)

An Applicant who is a contractor and compensated on a 1099 basis may be considered self-employed for this program with confirmation from a CPA, EA, or Licensed tax preparer that the Applicant is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). If an Applicant receives some W-2 income as part of their independent contractor employment, that income may be considered so long as their CPA confirms it is part of their self-employed income

[Service & Tip Industry](#)

Due to the cash nature of the service and tip industry, Applicants employed therein may participate in the Bank Statements program. Employment must be verified through traditional means. Base salary is verified with pay stubs and W2s. Qualified tips are averaged over time. Utilize the bank statement analysis to determine tip income. At least two corporate reference letters are required. 12 (or 24) months bank statement deposits will be utilized to calculate tip income. Neither a P&L nor a business license is required. Current receipt of tip income must be verified prior to closing.

[Section 5.2.2: Bank Statement Types](#)

[Personal Accounts](#)

Provide the most recent 12 months of personal bank statements **preceding application date.** Evaluate deposits to verify that they are part of the Applicant's income stream. Any deposits that are abnormal to the Applicant's typical deposits must be sourced/documentated to be considered as part of income. Total all eligible deposits and divide by 12 to determine monthly income. Provide the most recent 3 months of business statements to verify that income is coming from Applicant's business and the business is providing positive cash flow. Transfers coming from only one (1) business may be utilized to qualify. Transfers between personal accounts are not considered as part of an Applicant's income stream. Transfers from a business account to an Applicant's personal account may be utilized in the income calculation provided they meet the other requirements of this section. Significant and/or repeated transfers from an Applicant's personal account to their business account should be scrutinized carefully as they may be

indicators of poor financial health. If an applicant does not document a separate business account from which utilized deposits originate, the account will be underwritten as a business account per the [Comingled Account](#) guidelines. Updated statements through funding may be required at underwriter's discretion.

24 months of statements may also be provided. Where 24 months are provided, complete the analysis described over a 24 month period.

[Business Accounts](#)

Provide the most recent 12 months of business bank statements **preceding application date.**

Three options for evaluating business bank statements are available. Multiple accounts may be utilized for calculating the business' cash flow, however, the same method must be applied to all accounts. Multiple businesses may also be used to determine qualification provided each is separately verified in accordance with these underwriting guidelines. Transfers between an Applicant's business accounts are not considered deposits. Any abnormal deposits will need to be sourced and documented. Abnormal deposits will typically be those that are greater than 50% of the average monthly eligible deposits and that are out of the ordinary in form, amount, or frequency. Updated statements through funding may be required at underwriter's discretion. To utilize business bank statements for the income calculation, the Applicant(s) combined must own 25% or more of the business. Updated statements through funding may be required at underwriter's discretion.

24 months of statements may also be provided. Where 24 months are provided, complete the analysis described below over a 24 month period.

Method One | Uniform Expense Ratio

Multiply eligible deposits received by a 50% expense ratio. Then multiply the result by applicant's ownership percentage and divide by 12. As long as this expense ratio is reasonable to the applicant's line of work and the applicant qualifies, no further information is required.

Method Two | Profit and Loss Statement

Provide a CPA, EA, or licensed tax preparer prepared profit and loss statement covering the period of bank statements provided. As long as the eligible deposits on the business statements support at least 75% of the gross receipts listed on the P&L, use the net income on the P&L for qualifying based on the Applicant's pro-rata share of ownership. The resulting income should be reasonable to the Applicant's line of work.

Method Three | CPA Letter for Expense Ratio

Provide a CPA, EA, or licensed tax preparer letter stating the business' expense ratio based on the most recent year's filed tax return. The CPA letter may not include any exculpatory language.

The calculation is as follows:

Expense ratio x the business' total deposits over the 12 month period shown on bank statements.

Total from above – the total deposits.

Net deposits x the Applicant's pro-rata ownership percentage ÷ 12.

The resulting income should be reasonable to the Applicant's line of work.

[Comingled Accounts](#)

Comingled accounts refer to Applicants who do not maintain separate business and personal accounts. These accounts will be treated as business accounts for purposes of determining income. Utilize one of the above methods to calculate income.

Section 5.2.3: Non-Sufficient Funds (NSFs)

Non-Sufficient Funds (NSF) is a term used to indicate that a demand for payment (a check) cannot be honored because insufficient funds are available in the account on which the instrument was drawn. In simplified terms, a check has been presented for clearance, but the amount written on the check exceeds the available balance in the account. An NSF will be counted against the Applicant when the Applicant's account is overdrawn. Returned check situations that cause NSFs will be considered separately. Returned checks that do not result in a negative balance are not considered NSFs.

A distinction is made between overdrafts and NSFs covered with Applicant's own funds (e.g., savings accounts, "sweep" accounts) versus use of a line of credit or credit card accounts to cover NSFs. In order to avoid treatment as an NSF, there cannot be a fee associated with curing an overdraft.

NSFs are countered on an "instance" basis.

An instance	<ul style="list-style-type: none">• One time that an account is overdrawn and subsequently brought current.• May have multiple NSFs, <u>however it is still the same instance until the account is brought current.</u>
Second instance	If the account is brought current and becomes overdrawn again, the second time would be considered a second instance
Allowances	
In 12 months of statements	Maximum Three Instances allowed
In 24 months of statements	Regardless of which 12 month period the instances occurred in, a maximum of Six Instances allowed.

A significant number of NSFs in a single instance will be subject to scrutiny.

Section 5.2.4: Income Trend

Bank statements should show a stable or increasing trend of deposits. If the trend is declining and/or irregular, additional documentation may be required up to and including an additional 12 months of statements.

Acceptable Variance Levels

In the event that 12 months of statements are provided, a decline in deposits 6 months over 6 months of up to 10% is allowed. Beyond 10%, an additional 12 months of statements is required. In the event that 24 months of bank statements are utilized to determine the applicant's income, variances year over year are likely to occur. If the deposit trend is increasing or stable, no additional review is required. If the eligible deposits are declining, it should be addressed as per below. If the decline of deposits is greater than 10% year over year, then the account is ineligible for use in the income calculation.

The deposit trend is measured by calculating the percent change from year one (months 13-24 on the worksheet, previous year) to year two (months 1-12 on the worksheet, most recent year). Eligible deposits from year one should be subtracted from year two, and the difference divided by year one's eligible deposits to determine the change.

For example, if year one eligible deposits are \$100,000 and year two eligible deposits are \$80,000, the percent change would be a 20% decline ($\$80,000 - \$100,000 / \$100,000 = -20\%$)

In the event that 24 months of statements are provided, a declining deposit trend should be underwritten as follows:

Scenario	Requirement
If the eligible deposits declined year over year by less than 5%	<ul style="list-style-type: none"> Utilize a 24 month average
If the eligible deposits declined by greater than 5% up to 10% year over year	<ul style="list-style-type: none"> Utilize a 12 month average of the most recent year's eligible deposits
If the eligible deposits declined year over year by more than 10%	<ul style="list-style-type: none"> The account is ineligible.

The Applicant must provide a written explanation for a decline >5% in year over year eligible deposits. The explanation must address the reason for the decline and whether or not this event will continue into the future.

Section 5.2.5: Co-Applicant Income

Full documentation from a Co-Applicant who is not self-employed may be used to supplement bank statement income. See full documentation guidelines for additional information on acceptable sources and requirements. Taxable income is counted on a "gross" amount regardless of the net deposit shown on bank statements. Deposits resulting from these income sources should be deducted from the bank statement analysis. Non-Taxable income may be grossed up by 25%. Tax returns for Applicant must not be provided, otherwise the loan will have to be underwritten based on Full Documentation

Section 5.2.6: Other Income Sources

Rental Income

Purchase

Utilize the appraiser's opinion of market rent to determine rental income. No lease is required, however if a lease is in place after purchase, then utilize the lesser of the lease or the appraiser's opinion of market rent. If the subject property is vacant, the appraiser's opinion of market rents as listed on the comparable rent schedule may be utilized. If a lease is in place and will be transferred with the purchase, the lease must also be obtained and the lesser of the lease or appraiser's opinion of market rents must be used. Utilize a 25% vacancy factor to determine gross rental income. If the property is a primary residence (i.e., a 2-4 unit property), add the rental income to gross income and do not offset the PITIA. If the property is an investment property, calculate the subject property's rental income on a net basis. No rental management history is required, except as otherwise specified. Rental income may not be utilized on a second home.

Subject Property Refinance

Utilize 75% of the current lease income. Do not include rental deposits as part of the income stream. If the property is a primary residence (i.e., 2-4 unit property), add the rental income to gross income and do not offset the PITIA. If the property is an investment property, calculate the subject property's rental income on a net basis. No rental management history is required except as otherwise specified, however the property must be currently leased to utilize the

income. A lease that has expired and converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter from the Applicant outlining terms may be accepted. The Applicant must document one month's receipt of rental income, dated within 60 calendar days of the note date in all cases. Rental income may not be utilized on a second home. Properties that have historically been rented on a short term basis will have their rents averaged over the most recent 12 month period. Gaps are acceptable however the leases will still be averaged over a 12 month period. A 25% vacancy factor still applies.

Non-Subject Property

Utilize 75% of the current rental income less documented PITIA to qualify. Do not include rental deposits as part of the income stream. No rental management history is required, however the property must be currently leased to utilize the income. A lease that has expired and converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter the Applicant outlining terms may be accepted. The Applicant must document the most recent one month's receipt of rental income, dated within 60 calendar days of the note date in all cases. Rental income may not be utilized on a second home. Properties that have historically been rented on a short term basis will have their rents averaged over the most recent 12 month period. Gaps are acceptable however the leases will still be averaged over a 12 month period. A 25% vacancy factor still applies.

Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income. On a purchase transaction, 75% of the appraiser's opinion of market rents may be utilized. On a refinance transaction, the rental income must be documented by a lease and proof of receipt of most recent one month's rental income dated within 60 calendar days of closing. 75% of the rents may be utilized. If being utilized on the subject property, the appraiser must be able to verify with the building department that the accessory unit is a.) legal and b.) may legally be rented.

Income from Roommate in a Single Family Residence

See [Full Documentation](#) guidelines for guidance. Note that tax return requirement listed in that section does not apply. Show 12 months' receipt of boarder income to consider it effective income.

Principal Residence Being Vacated by an Applicant (a/k/a Departing Residence)

When an Applicant vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis. 75% of the monthly gross rental income less the property's PITIA is utilized for qualification.

The following are required:

- A properly executed lease agreement (that is, a lease signed by the Applicant and the lessee) of at least one year's duration after the loan is closed
- Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner must also be provided.
- The Applicant needs to evidence sufficient equity in the vacated property defined by an LTV ratio of 75% or less. Equity can be evidenced by a residential appraisal no more than 6 months old, an automated valuation tool to be run by Luxury Mortgage's underwriter, or by comparing the unpaid principal balance against the original purchase price of the property.

Full Documentation Supplemental Income Sources

Applicants relying on bank statements to calculate DTI may supplement their income with the following sources:

- Social Security,
- Pension,
- Asset Utilization/Distribution,
- Alimony,
- Child support, and
- Second job income.

Utilize the full documentation guidelines for eligibility, documentation requirements, and calculation methods. Provide W-2's and 1099's as applicable, but do not provide tax returns. If other income sources are used to qualify the Applicant, the Applicant's primary income source (>50%) must be the income calculated based on the bank statements less expense ratio if applicable.

Section 5.3: 1099 Only Product

Section 5.3.1: Product Eligibility

The 1099 Only product is designed for Applicants who receive compensation either in the form of commission or on an independent contractor basis and receive IRS form 1099 at year end. In order to be eligible, the Applicant's primary income source (>50% of qualifying income) must be income as calculated on 1099s provided less applicable expense ratio. The re-verification shall be good for 60 days. Two year's employment history must be verified via either a written VOE, CPA's letter, or other documentation relevant to the Applicant's circumstances. The 1099s provided should cover a complete calendar year. In the event that the Applicant converted from W-2 to 1099 during the previous year, the [W-2 to 1099](#) guidelines should be utilized. An applicant who is an independent contractor and receives a portion of their independent contractor income as W-2 may have the W-2 income included in the income calculation as long as a CPA/EA/licensed tax preparer letter is provided verifying the W-2 income is not the result of employment income. The letter will be good for 60 days. A letter addressed to the broker or to whom it may concern is acceptable provided the information is reverified verbally by Luxury Mortgage The 1099 income used to qualify may not come from a source owned by any of the Applicants on the loan file nor from a family owned business.

The following documentation is required for this program:

- Most recent one or two years of 1099s
- If the note date is more than 120 days into the calendar year:
 - Documentation of receipt of year to date income within 120 calendar days of the note date is required via one of the following:
 - A check stub or checks showing receipt of YTD income, or
 - Bank statements showing receipt of YTD income
- A CPA, EA, or licensed tax preparer completed profit and loss statement or expense ratio letter, depending on method utilized
- Transcripts of the 1099s/W-2's provided by the IRS.
- If 1099 transcripts are not available,
 - Obtain bank statements showing at least 90% gross receipt income that is payable to borrower or borrower's LLC, and
 - Documentation of attempted transcript pull

Any income sources that are illegal under local, state and/or federal law are not eligible under this product.

In the event that the 1099's are issued to an entity, the borrower's ownership interest in the entity must be 100% as documented via a CPA letter or equivalent documentation.

[Section 5.3.2: Income Calculation Methods](#)

Qualifying income is based on the 1099s provided less an applicable expense ratio using one of the methods described. Complete the analysis below based on the numbers of years of 1099's provided. In the event two years of 1099s are provided, a 24 month average of net income shall be utilized in the event of stable or increasing gross receipts. A 12 month average of net income shall be utilized in the event of declining gross receipts. Year to date gross receipts should support the 1099s supplied and relied upon to qualify.

[Method One | Uniform Expense Factor](#)

Apply a 25% expense factor to all eligible gross receipts. So long as this expense ratio is reasonable to Applicant's line of work and Applicant qualifies, no further information is required.

[Method Two | Profit and Loss Statement](#)

Provide a CPA, EA, or licensed tax preparer prepared profit and loss statement covering the calendar years of 1099s provided. If two years of 1099's provided and the gross receipt trend is stable or increasing, a profit and loss statement covering two years should be provided. If the gross receipt trend is declining, a profit and loss statement covering the most recent calendar year must be provided and utilized to qualify. As long as the gross receipts on the 1099s support at least 90% of the gross receipts listed on the P&L, use the net income on the P&L for qualifying income. The resulting income should be reasonable to the Applicant's line of work.

[Method Three | CPA Letter for Expense Ratio](#)

Provide a CPA, EA, or licensed tax preparer letter stating the Applicant's expense ratio based on their most recent year's tax return. The letter may not include any exculpatory language. Multiply the expense ratio by the gross receipts shown on the 1099s relied upon for qualification. Deduct that figure from the gross receipts listed on the 1099(s) and use the resulting number to qualify, averaged over the number of months of income provided. The resulting income should be reasonable to the Applicant's line of work. If the gross receipt trend is declining, the income shall be calculated based on the most recent year's 1099(s) only less the stated expense ratio.

[Section 5.3.3: Co-Applicant Income](#)

Full documentation from a Co-Applicant who does not rely on 1099s may be used to supplement the 1099 income. See full documentation guidelines for additional information on acceptable sources and requirements.

Taxable income is counted on a "gross" amount.

Non-Taxable income may be grossed up by 25%.

[Section 5.3.4: Other Income Sources](#)

[Rental Income](#)

Subject Property Purchase

Utilize the appraiser's opinion of market rent to determine rental income. Utilize a 25% vacancy factor to determine gross rental income. No lease is required, however if a lease is in place, then utilize the lesser of the lease or the appraiser's opinion of market rent.

If the property is a primary residence (i.e., 2-4 unit property), add the rental income to income and do not offset the PITIA.

If the property is an investment property, calculate the subject property's rental income on a net basis. No rental management history is required, except as otherwise specified.

Rental income may not be utilized on a second home.

Subject Property Refinance

Utilize 75% of the current lease income.

If the property is a primary residence (i.e., 2-4 unit property), add the rental income to income and do not offset the PITIA.

If the property is an investment property, calculate the subject property's rental income on a net basis. No rental management history is required, except as otherwise specified, however the property must be currently leased to utilize the income. A lease that has expired and converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter from the Applicant outlining terms may be accepted. The Applicant must document one month's receipt of rental income, dated within 60 calendar days of the note date in all cases.

Rental income may not be utilized on a second home.

Properties that have historically been rented on a short term basis will have their **income averaged over the most recent 12 month period and hair cut of 75% is required. If less than 12 months can be reviewed as exception.** Gaps are acceptable however the leases will still be averaged over a 12 month period.

Non-Subject Property

Utilize 75% of the current rental income less documented PITIA to qualify. No rental management history is required, however the property must be currently leased to utilize the income. A lease that has expired and converted to month to month is acceptable for this purpose. In the event the tenancy is at will with no formal lease agreement in place, a letter from the Applicant outlining terms may be accepted. The Applicant must document most recent one month's receipt of rental income, dated within 60 calendar days of the note date in all cases.

Rental income may not be utilized on a second home.

Properties that have historically been rented on a short term basis are subject to case by case review to utilize the income. If allowed, income would be averaged over the most recent 12 month period. Gaps are acceptable however the leases will still be averaged over a 12 month period.

Income from Roommate in a Single Family Residence

See [Full Documentation](#) guidelines for guidance. Note that tax return requirement listed in that section does not apply. Show 12 months' receipt of boarder income to consider it effective income.

Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income.

On a purchase transaction, 75% of the appraiser's opinion of market rent may be utilized.

On a refinance transaction, the rental income must be documented by a lease, and proof of receipt of most recent one month's rental income, dated within 60 calendar days of closing. 75% of the rents may be utilized. If utilized on the subject property, the appraiser must be able to verify with the building department that the accessory unit is a.) legal and b.) may legally be rented.

Principal Residence Being Vacated by an Applicant (a/k/a Departing Residence)

When an Applicant vacates a principal residence in favor of another principal residence, the rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis. 75% of the monthly gross rental income less the property's PITIA is utilized for qualification.

The following are required:

- A properly executed lease agreement (that is, a lease signed by the Applicant and the lessee) of at least one year's duration after the loan is closed.
- Evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner must also be provided.
- The Applicant needs to evidence sufficient equity in the vacated property defined by an LTV ratio of 75% or less. Equity can be evidenced by a residential appraisal no more than 6 months old, an automated valuation tool to be run by Luxury Mortgage's underwriter, or by comparing the unpaid principal balance against the original purchase price of the property.

Other Income Sources

Applicants relying on 1099s less applicable expense ratio to calculate DTI may supplement their income with the following sources:

- Social Security,
- Pension,
- Asset Utilization/Distribution,
- Alimony,
- Child Support, and
- Second Job income.

Utilize the full documentation guidelines for eligibility, documentation requirements, and calculation methods. Provide W-2's and 1099's as applicable, but do not provide tax returns. The Applicant must verify these alternative income sources without providing tax documents other than W-2's/1099's, and they must derive their primary income source from self-employed activity calculated based on the 1099(s) less the applicable expense ratio.

Section 5.4: Asset Qualifier

Section 5.4.1: Product Eligibility

Total post-closing assets must meet one of the three requirements below. Funds to close must be documented in accordance with guideline requirements.

Section 5.4.2: Asset Calculations and Requirements

Calculation Methods

Method 1 | Mortgage Only

Total post-closing assets must equal 125% of all outstanding mortgage debt for which the Applicant has personal liability. Any mortgage debt which an applicant may document in compliance with [Sections 8.5 or 8.7](#) may be omitted from this calculation.

Method 2 | Simplified

Total post-closing assets must equal 110% of the mortgage amount on the subject property plus 25% of all other outstanding debt (mortgage and consumer). Any debt which an applicant may document in compliance with [Sections 8.5 or 8.7](#) may be omitted from this calculation.

Method 3 | Traditional

- 100% of loan amount
- **36 months** of total of other debt service, as determined by the liability section of this guideline. Do not include PITIA on rental properties, as that is addressed separately. Do not include the subject property's PITIA.
- **36 months** of net loss on rental real estate properties as determined below in this section. Do not include the subject property's PITIA.

Eligible Asset Types

Assets are determined based on the below calculation:

- Cash and cash equivalents: 100% of face value
- Marketable securities (excludes unvested RSUs and Stock options): 80%
- Retirement funds: 70% unless if Applicant is of retirement age, then use 80%. If utilizing retirement account, document Applicant's ability to access the funds.
- Cash surrender value of an annuity or life insurance contract: 100%
- Bitcoin: 50%, unless liquidated and deposited into another account
- **To meet asset requirements up to 10% of the assets utilized may come from cash out proceeds (this is only allowable on Methods 2 and 3)**
- **The proceeds from any documentable sale of home or business by borrower over the prior 6 months**

The balance of any loans secured against financial assets being used for asset qualification will be netted against the asset's value before application of discount, without regard to the total amount that may be drawn. The Applicant(s) may only use their proportionate share of any accounts jointly held with parties who are not on the loan application. If no specified percentage of ownership is listed, it will be assumed the account is divided evenly amongst the account holders.

Documentation Requirements

The most recent 6 months of statements must be provided for any account that will be utilized for asset qualification. Asset balances must be verified within 120 days of the note date via statements or other verification of the account balance, unless more recent required based on underwriter's discretion. The statements must be analyzed for deposit activity. Any deposit greater than 10% of the face value of the account of the most recent statement must be sourced and documented.

Business accounts used for funds to close should follow standard asset requirements.

Gift funds do not need to be seasoned any longer than would be required under standard asset requirements. Gift funds may be utilized for funds to close a purchase only.

Any deposits which cannot be sourced will be deducted from the end value of the account. Note: taxes, insurance, and HOA/common charges on non-subject properties do not need to be documented if utilizing Methods 1 or 2.

The residual income for the Asset Qualifier product must meet or exceed \$1,500 per month. For purposes of the product, gross income is determined by taking available assets and dividing by 48 months. Do not impute tax deductions when determining residual income.

Pre-Closing Quality Control

On Asset Qualifier loans, Luxury Mortgage will order a re-verification of assets as part of its qualify control measure.

Ineligible Asset Types

- Business funds (may be used for funds to close)
- Non-liquid assets (automobiles, artwork, business net worth etc.)
- Face value of life insurance. Cash value of a vested life insurance policy is allowed at 100%. When used for reserves the cash value must be documented but does not need to be liquidated or received by Applicant.
- Unvested restricted stock
- Stock options, unless exercised
- Securities that are not publicly traded
- Cryptocurrency other than Bitcoin

Rental Property Calculation (Method 3 Only)

Rental properties are counted on a net basis based on 75% of lease less PITIA to determine impact on debt service. Net rent can never exceed \$0 for determining impact.

For example, a property with a lease of \$1,600 and PITIA of \$1,500 would have \$300 per month added to debt service ($\$1,600 \times 75\% \text{ less } \$1,500 = -\$300$). A lease of \$2,400 and PITIA of \$1,500 would have \$0 per month added to the debt service ($\$2,400 \times 75\% = \$1,800 \text{ less } \$1,500 = \300). Since the result is greater than \$0, nothing is added to the debt service.

Each rental property is countered separately. Other REO (including any rental properties) require additional reserves. Document at least 3 months receipt of rental income to utilize. If no rent can be documented for the property, include the full PITIA in its debt service.

Section 5.5: Investor Cash Flow

Section 5.5.1: Product Eligibility

Qualification is determined solely based the debt service coverage ratio (DSCR) of the subject property only, as defined by rents divided by proposed PITIA (based on the qualifying rate and payment) unless the [interest only payment](#) is utilized, see [Qualifying Ratios](#) for more detail.

Must meet the following:

- The loan must be eligible for treatment as a business purpose loan. This is required due to the exemption a business purpose loan has from the following regulations:
 - ATR, QM, and HPML requirements
- At least one Applicant on the loan must have at least a 12 month history of owning and managing rental properties, though it does not need to have been in the most recent three years. See [below](#) for criteria to waive this requirement.
- Ownership/management of commercial properties is acceptable for this requirement.
- Documentation to substantiate the management history must be provided.
- No income or employment is verified for this product.
- No DTI is developed.

Section 5.5.2: Qualification

The debt service coverage ratio is subject to the following requirements. Note that the DSCR is calculated precisely and may not be rounded up. Note: that certain DSCR levels i.e., <1.0 may be subject to pricing adjustments.

- Up to 70 LTV:
 - FICO ≥ 700 : No minimum
 - FICO < 700 : 1.000
- Above 70 and up to 75 LTV:
 - FICO ≥ 700 and purchase: no minimum (DSCR < 1.0 must have at least a 1 year PPP)
 - FICO < 700 or refinance: 1.000
- Above 75 LTV: 1.000

Example: Rents of \$1,000 and PITIA of \$800. $DSCR = \$1,000 / \$800 = 1.25$. This would be eligible for the product.

Rents of \$800 and PITIA of \$1,200. $DSCR = \$800 / \$1,200 = .66$. This would not be eligible for the product unless LTV is ≤ 75 , FICO ≥ 700 , and Applicant has an additional 6 months PITIA reserves.

Interest Only Payment Qualification

The interest only payment on a loan with an interest only payment feature may be used in lieu of an amortizing payment to calculate the Qualifying Payment and the DSCR, provided the LTV does not exceed 75 and the FICO score on the file is not less than 680. The amortizing payment described in the Qualifying Payment section must be used on a loan which does not meet the criteria laid out here. The taxes, insurance, homeowner's association dues, and any other payments included in the "TIA" of the PITIA must still be calculated in the DSCR.

Landlord History Waiver

Applicants who meet all of the below criteria are not required to document a previous 12 month history of owning and managing rental properties. Underwriting may, in its discretion, request a motivation letter or other information as necessary to establish the loan as a business purpose loan. In instances where there are multiple Applicants and all Applicants do not meet the below requirements, the file is subject to additional due diligence to verify it will be a business purpose loan.

Purchase Transactions:

- 680 FICO
- 1.0 DSCR based on a 30 year amortizing payment
- 0x30x12 on all housing trade lines as of the application date
- No mortgage forbearances with a missed payment in the most recent 12 months prior to the application date
- Applicant must own their current primary residence
- Properties acquired within the last 12 months with proof of 3 or more months of rent received prior to application date

Refinance Transactions:

- 680 FICO
- 1.0 DSCR based on a 30 year amortizing payment
- 0x30x12 on all housing trade lines as of application date
- No mortgage forbearances with a missed payment in the most recent 12 months prior to the application date
- Applicant must own their current primary residence

- If the property was acquired in the last 12 months
- At least 3 consecutive months receipt of rent are provided prior to application date
- On Multi-Unit Properties (for requirements above) only 1 unit is required to be verified

Determination of Rents

Purchase

Use 100% of the market rents as determined by the appraiser's comparable rent schedule. No lease is required.

Scenario	Requirements
If a lease is in place and will continue after closing	The lesser of the market rents or the current rents will be utilized.
If a property is subject to an at will tenancy without a written lease agreement which will continue after closing	Documentation from the seller of the property outlining the terms of the lease will be acceptable as a lease agreement provided it includes: <ul style="list-style-type: none"> • the tenant's name, • address, and • monthly rent
If an Applicant has a tenant in place on a lease which will commence within 60 days of purchase	Lease may be included within the determination of the subject property's cash flow as the current rents with the following: <ul style="list-style-type: none"> • The rental income utilized may not exceed the appraiser's opinion of market rents. • Applicant must provide the executed lease AND • Proof of receipt of 1st months' rent and/or security deposit due per the terms of the lease

Refinance

Use the lesser of current lease or 100% of market rents as determined by the appraiser's comparable rent schedule. Applicant must provide leases in place. An expired lease which converts to month to month either based on language or, per state law, which converts to month-to-month is acceptable.

Scenario	Requirements
If the property is subject to an at will tenancy without a written lease agreement	A letter from the Applicant outlining the terms of the lease will be acceptable as a lease agreement with proof of the most recent month's rental income provided the letter includes: <ul style="list-style-type: none"> • The tenant's name, • Address, • Monthly rent, AND • How long the lease has been active
If an Applicant has a tenant in place on a lease which will commence within 60 days of closing	Lease may be included within the determination of the subject property's cash flow as the current rents with the following:

	<ul style="list-style-type: none"> • The rental income utilized may not exceed the appraiser's opinion of market rents. • Applicant must provide the executed lease AND • Proof of receipt of 1st months' rent and/or security deposit due per the terms of the lease
If the unit is subject to a long term lease agreement and the lease agreement exceeds the market rents	<p>The lease may be used to calculate the DSCR provided:</p> <ul style="list-style-type: none"> • The lease will continue for at least six months after the note date AND • Two months of rents due prior to the application date are documented as received timely.
If properties rented on a short term basis where the actual rents exceed the market rents may use the actual rents.	<p>Provided the following are met:</p> <ul style="list-style-type: none"> • A 12 month average for the period preceding the application will be developed, • A 25% vacancy factor applies to the DSCR calculation, AND • The gross rents may not be declining more than 10% 6 months over 6 months.
If the unit is currently vacant	Utilize 100% of the market rent shown on the comparable rent schedule.

Multi-Year Lease

In the event an Applicant has a multi-year lease, an increase coming within 12 months, and which will continue for 12 months after the adjustment may be utilized to calculate the DSCR. The increased rents utilized to underwrite under this section may not exceed the appraiser's opinion market rent of the unit(s) in question.

Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income. On a purchase transaction or a refinance transaction, the lesser of the lease or appraiser's opinion of market rent may be utilized if leased, and 100% of the appraiser's opinion of market rents may be utilized if vacant. If utilized on the subject property, the appraiser must be able to verify with the building department that the accessory unit is a.) legal and b.) may legally be rented.

Documentation for Other Owned Properties

Mortgage statements for other properties listed on the Applicant's Schedule of Real Estate Owned are necessary solely to the extent that they are required to validate the payment history of the related mortgage. Other documentation related to the carrying costs of other properties owned such as the property tax bills, homeowner's insurance bills, and/or homeowner's association dues statements is **not** required.

Chapter 6: Assets

The accumulation and availability of liquid assets are a strong factor indicating a sound credit risk. 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 asset types are acceptable for each program's reserve requirement. Assets statements are generally valid for 120 days. Asset statements provided must cover at least 60 days.

Section 6.1: Down Payment

On purchase transactions, Applicants must make the down payment with funds from their own resources. Generally, all earned 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. Gift funds may be utilized towards down payment requirements subject to the gift section below.

Section 6.2: Reserves

Reserves are those assets which are liquid or may be liquidated and are available to Applicant(s) post-closing of the mortgage loan. Reserves include cash and other assets that are easily and readily convertible to cash by the Applicant. Reserves are calculated using the qualifying payment (see [Qualifying Ratios](#) for details) and are measured by the number of months of monthly housing expense (PITIA- Principal, Interest, Taxes, Insurance, Association dues/Special assessments) that an Applicant could pay using his or her financial assets. PITIA includes:

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

The requirements for reserves for each program are as follows:

Section 6.2.1: Full Documentation

Requirements	
Loan amount up to \$1.5MM	6 months PITIA
Loan amount above \$1.5MM and up to \$2MM	9 months PITIA
Loan amount above \$2MM and up to \$4MM	12 months PITIA
LTV >85	Additional 3 months PITIA
DTI >50 and increased residual income not met	Additional 6 months PITIA
Other real estate owned* (see below)	2 months of each property's PITIA

Section 6.2.2: Bank Statements

Requirements	
Loan amount up to \$1.5MM	6 months PITIA
Loan amount above \$1.5MM up to \$2MM	9 months PITIA
Loan amount above \$2MM up to \$4MM	12 months PITIA
LTV >85	Additional 3 months PITIA
DTI >50 and increased residual income not met	Additional 6 months PITIA
Other real estate owned	2 months of each property's PITIA
1-2 Years Self-Employed	Additional 6 months PITIA

Section 6.2.3: 1099 Only

Requirements	
Loan amount up to \$1.5MM	6 months PITIA
Loan amount above \$1.5MM and up to \$2MM	9 months PITIA
Loan amount above \$2MM and up to \$4MM	12 months PITIA
LTV >85	Additional 3 months PITIA
DTI >50 and increased residual income not met	Additional 6 months PITIA
Other real estate owned	2 months of each property's PITIA

Section 6.2.4: Asset Qualifier (Method 3 Only)

No separate reserves required-see [Section 5.4.2](#) for post-closing asset requirements

Section 6.2.5: Investor Cash Flow

Requirements	
Loan amount up to \$1.5MM	6 months PITIA
Loan amount above \$1.5MM and up to \$2MM	9 months PITIA
Loan amount above \$2MM and up to \$4MM	12 months PITIA
DSCR < 1.0	Additional 6 months PITIA
Other real estate owned	None required

Section 6.2.6: Foreign National

12 months PITIA reserves required for the subject property if relying on Method Two (DSCR) for income qualification. No additional reserves required for Method One (Asset Qualifier).

Full Documentation-Other Properties Owned

In the event Method 1 is utilized to calculate rental income on a non-subject rental property, 1/12th of the expenses claimed may be utilized to calculate the "TIA" of the "PITIA". The mortgage statement(s) must still be provided, the taxes, insurance, and HOA dues statements do not.

Section 6.3: Asset Eligibility

The following provides a list of assets and when they can be utilized for down payment and or reserves. Items not identified on this list may be acceptable on a case by case basis, if pre-approved by Luxury Mortgage. Note that this section relates solely to the utilization of assets to meet the funds to close or reserve requirements. In the instance of a conflict between this section and the [Asset Utilization](#) or [Asset Qualifier](#) guideline sections, the latter shall apply.

Annuities/Cash Value of Life Insurance

The cash value of an annuity or a whole life insurance policy is an acceptable source for funds needed to close or for reserves and is defined as 100% of the cash surrender value of the annuity/life insurance contract, net of any loans. If being used for funds to close, document the liquidation. If penalties for failure to repay the loan are limited to the surrender of the policy/contract, 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.

Borrowed Funds - Secured

Borrowed Funds from a secured loan may be used as a source of closing funds or reserves. 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, and
- The value of the remaining asset must be reduced by the amount of the secured loan balance

Business Assets

Cash from a business account(s) may be acceptable provided the funds are 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 amount of business assets that may be utilized would be restricted to the percentage of ownership interest the Applicant(s) has in the business. The Applicant(s) on the loan must own a combined 51% or greater interest in order for the funds to be utilized. One of the following must be provided:

- CPA, EA, or licensed tax preparer's letter stating that the use of the funds in the transaction will not have a material adverse impact on the business' operations, or
- Complete a Cash Flow Analysis based on the following:
 - Determine the business' monthly operating expenses based on either the most recent year's tax returns or average deductions on **three months'** worth of business bank statements
 - Deduct **three months'** worth of expenses from current business account balance to determine available balance. Then apply Applicant's ownership percentage to the result to determine available business assets that may be utilized for the transaction.

Any funds which have been transferred into personal accounts prior to application date may be utilized without restriction.

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. The underwriter must 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 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. A joint access letter is not needed to use 100% of the assets held in an account held jointly with non-borrowing account holders.

Proceeds from a Cash-Out Refinance

Cash-out proceeds from a subject property refinance may be used as closing costs or as a source of debt pay down/off for all products and as post-closing reserves on a loan with an LTV up to 75. **Cash-out proceeds are eligible for Passive Asset Utilization or Asset Qualification under the Asset Qualifier product.** Proceeds from a Technical Refinance or a refinance where borrower is solely recouping documented expenditures (see [Rate/Term Refinance](#) for definition), which represent the Applicant's own funds being recouped, may be used as reserves and towards Asset Utilization and Asset Qualifier requirements.

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. Utilize 100% of the face value of the account.

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. Document the Applicant's ability to access the funds in order to utilize them.

Cryptocurrency Assets

Applicants with Bitcoin assets may utilize the assets for funds to close and for reserves. To utilize as reserves, 50% of the face value of the asset will be utilized, unless liquidated in which case 100% will be utilized. To utilize for funds to close, the assets must be liquidated and deposited into another account prior to closing with same documented. Bitcoin is the only eligible Cryptocurrency all others are ineligible.

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) for 60 Days prior to transfer,
- Funds must be transferred into a U.S. bank/deposit account, and
- Proof of wire transfer must be documented in the loan

Assets which are held in an approved institution may be used for post-closing reserves and may remain in the foreign country. Refer to [Exhibit A](#) for the approved list.

Gift Funds

An Applicant of a mortgage loan may use funds received as a personal gift from an acceptable donor as a source of funds to close, closing costs, and funds to pay down debts. 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 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. The Applicant must contribute 5% of the purchase price from their own funds, except as otherwise specified. A purchase of a primary residence with an LTV ≤ 80 does not require an Applicant contribution, except as otherwise specified. Gifted funds are not allowed for loan amounts $> \$3MM$.

Gifts funds are an eligible under the following guidelines:

- 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, and
- The date the funds were (or will be) transferred

Gift of Equity

Gift of Equity refers to a gift received from the seller of the property. The seller must be a relative of the Applicants. 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. The loan to value is limited to the lesser of 75% or the product guidelines on files with a Gift of Equity. The Gift of Equity must be referenced in the purchase agreement and on the settlement statement. A fully executed gift letter must also be provided. All occupancies and products are eligible, subject to the above gift requirements. For a primary residence or second home, an Applicant contribution is not required. For an investment property, a 5% contribution must be made by the Applicant.

Marketable Bonds and Securities

Marketable Securities such as stocks, government bonds and mutual funds (net of margin) are acceptable sources of funds for down payment, closing costs, and reserves provided their value can be verified. Marketable Securities must be traded on a major market exchange (e.g., NYSE, AMEX, and NASDAQ) where market activity and valuation can be readily determined. Marketable Securities can be used for closing funds provided they are liquidated and reserves at 80% of the verified market value net of margin loan balance. A joint access letter is not needed to use 100% of the assets held in an account held jointly with non-borrowing account holders.

Liquidation Requirements

Document the liquidation of the funds and the end balance.

Non-Borrowing Titleholders

Funds from a non-borrowing spouse who is/will be a titleholder may be utilized as funds to close (not reserves) on a primary residence or second home. These funds will not be considered gift. Two months' asset statements must be provided, and any large deposits sourced/documentated acceptably.

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, Lender 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 Personal Assets

Proceeds from the sale of Applicant's personal assets are an acceptable source of funds for down payment, closing costs and reserves on a case-by-case basis. Documentation of the sale is required.

Proceeds from Sale of Real Estate

Proceeds from the sale of real estate are an acceptable source of funds for funds to close and reserves. 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.

Proceeds from the Pending Sale of Real Estate

In instances where an Applicant owns real property that is under contract to sell but will not close prior to the consummation of the subject transaction, the equity in the property in question may be used towards post-closing reserves. In order for an Applicant to be eligible under this guideline, the following criteria must be met:

- The transaction in question must be subject to a bona fide arm's length purchase and sales contract, listing the seller as either the owner individually or through an entity created for their benefit,
- The transaction in question must have a contracted closing date within 90 days of the closing of the subject transaction. An "on or about" date is acceptable for this purpose,
- The transaction in question may not be subject to any outstanding financing contingencies. If there were any financing contingencies in the purchase and sales contract, then there must be evidence in the file that the contingencies have been cleared,
- The Applicant must provide an estimated settlement statement drawn up by the attorney or closing agent representing them in the transaction in question confirming the estimated proceeds, net of any seller closing costs and/or lien payoffs, and
- The Applicant must provide a letter attesting to the number and amount of outstanding liens on the property that is involved in the transaction in question

If all of these parameters are met, up to 50% of the Applicant's documented share of the proceeds may be utilized towards the post-closing reserve requirement.

Relocation Benefits

When the Applicant's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, Luxury Mortgage will require a copy of the executed buyout agreement to document the source of funds. In order to utilize Relocation Benefits paid by an employer to an Applicant for funds to close each of the following must be met:

- 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 may 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 PITIA on the existing residence can be eliminated from the debt-to-income ratio analysis.

Rental or Lease Credits

Rent credit for option to purchase is an acceptable source of funds toward the down payment. Applicants are not required to make a minimum contribution from their own funds beyond standard guideline requirements for the rental payments in order for to be credited toward the down payment. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. Only the portion of the rental payment that exceeds the fair market rent can be applied to the down payment or closing costs.

In order to use credits granted to an Applicant from a rent with an option to buy lease arrangement as closing funds, the following guidelines **should** be followed:

- The lease agreement must state how the credit will be accrued, and
- The Applicant must provide:
 - Copies of canceled checks/money orders to evidence a history of a minimum of 12 months, and
 - Copy of rental/purchase agreement evidencing a minimum original term of 12 months
- The appraiser must provide: A Fannie Mae Form 1007 single-family comparable rent schedule for the property.
- Rental or lease credits **cannot** be used to calculate reserve requirements.

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.

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). 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 will **not** consider the vested funds as effective reserves.

Eligible Retirement Accounts may be included in the reserves or funds to close requirements as indicated above. For reserve purposes utilize the vested balance amount minus any outstanding loans and/or funds liquidated to complete the transaction at 70% of net value if Applicant is not of retirement age. If the Applicant is of retirement age, utilize 80%.

Tax Deferred Exchange (1031 exchange)

Transactions involving 1031 exchange are permitted for investment properties. 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 a Qualified Intermediary (QI) or Accommodator or Facilitator, an individual or business entity that is sanctioned as a safe harbor by the IRS and provides the following functions/services in a 1031 exchange:

- Acquires the relinquished property from the Exchanger and causes it to be transferred to the buyer,

- Holds the exchange proceeds to avoid exchanger's actual or constructive receipt of funds, and
- 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. Provide the sales contract for the sold property along with the 1031 exchange agreement in addition to any other documents required under standard requirements in this guideline. Title can be held in an entity, please follow the respective requirements in the [Title Vesting](#) section of the Underwriting Guidelines

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

- The exchanged property must be identified within 45 days from the date of sale of the relinquished property
- All 1031 proceeds of the initial sale must be controlled by Qualified Intermediary (QI), Accommodator or Facilitator, with supporting documentation provided, and
- All 1031 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 has to 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.

[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. 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. The trust agreement or trust certificate should be provided.

[U.S. Savings Bonds](#)

U.S. Savings Bonds are an acceptable source of funds for down payment, closing costs and reserves. To use U.S. Savings Bonds for closing funds and cash reserves calculations, the Applicant should provide a list of amounts, serial numbers, and maturity dates of the bonds. Photocopies should **not** be made. U. S. Savings Bonds should be based on their purchase price unless the redemption value can be documented.

Section 6.4: Ineligible Asset Types

Examples include, but are not limited to, the following:

- Unsecured Borrowed Funds: 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.
- Assets generated from activity that is illegal on a local, state, and/or federal level.
- Cryptocurrency: Any Cryptocurrency other than Bitcoin

Chapter 7: Credit Requirements

Utilization and timely repayment of credit is a strong positive factor in determining an Applicant's credit risk profile. This chapter of the guideline addresses requirements for Applicant's credit profile. A merged credit report is required from all Applicants containing information from all three credit bureaus. A report for any Applicant containing only two bureaus is acceptable to the extent that it is the totality of the information available on said Applicant. Applicants with only one bureau reporting are not acceptable. Any frozen bureaus must be unfrozen, and credit information obtained. The credit report is good for 120 days from report date to the note date.

Section 7.1: Trade Line Requirement

Each Applicant must have three trade lines and a credit history covering **24 months preceding application date**. One trade line must have been active within the last 6 months. At least one trade line must be seasoned for 24 months. The same trade line may be used to cover both the 24 month history and active requirement. The trade lines do not need to currently be open. If an Applicant's spouse is the only Co-Applicant listed, only one Applicant is required to meet this guideline. Authorized user accounts may not be utilized to satisfy this requirement. Below are the permissible exceptions to this requirement.

Section 7.1.1: U.S. Citizen Living Overseas

An Applicant who is a US citizen but currently living overseas and does not meet the trade line requirements may utilize one of the below options to meet this requirement. In order to utilize this guideline, the Applicant must have at least one credit score reporting.

Method One | Financial Institution Letter

The Applicant may provide one (1) reference letter from a financial institution with whom the Applicant has a deposit relationship (minimum two year relationship preceding note date). The letter must outline contact information for the institution, Applicant's name, and account number(s), and detail the types and lengths of the institution's relationship with the Applicant. The letter should also state whether or not the Applicant is in good standing. The institution providing the letter must be an institution approved by Luxury Mortgage. Refer to [Exhibit A](#).

Method Two | Foreign Credit Reference Letters

The Applicant may provide three (3) reference letters from creditors in the Applicant's country of residence. Credit reference letter must be on institution letterhead and reflect telephone number, address, and website. The reference letters must in combination meet the Trade Line Requirement of the Underwriting Guidelines.

Section 7.1.2: Applicants with Insufficient Trade Lines

Alternate credit which would be acceptable to FNMA may be used to bridge a credit trade line gap in the following circumstances. An Applicant who has three trade lines on their credit report but does not meet one or more of the requirements for a 24 month history, 24 month seasoned trade line, or active trade line in the last 6 months **preceding application date**:

- Provide one additional trade line showing 0x30x12. One of the trade lines on credit or the alternative must be a housing line showing 0x30x12, or
- Provide two additional trade lines showing 0x30x12

Section 7.1.3: Unmarried Joint Applicants

Unmarried joint Applicants who meet at least two of the three below criteria may be treated as spouses for determining compliance with the trade line requirements (within the meaning of Section 7.1)

- Reside together for at least two years,
- Hold at least one joint trade line, and
- Jointly hold asset accounts

Section 7.2: Credit Score Used for Underwriting

Program	Requirements
Full Documentation, Bank Statement, and 1099 Only	<ul style="list-style-type: none"> • Use the middle score of the primary income earner. <ul style="list-style-type: none"> ○ An Applicant's documented income may not be excluded to determine the primary income earner on a loan • If there is no primary earner (i.e., both applicants have the same income) then lowest middle score should be used
Asset Qualifier	<ul style="list-style-type: none"> • Generally, use the lowest middle score on the loan. • If one Applicant is providing 75% or more of the assets for the subject transaction, including funds to close and all post-closing reserve requirements, in accounts that are either solely in their name or jointly with persons who are not Applicants on the transaction, then they are deemed to be the primary asset contributor and their FICO may be used for guideline purposes.
Investor Cash Flow	<ul style="list-style-type: none"> • Use the lowest middle score on the loan.

Section 7.3: Credit Inquiries

Careful consideration must be given to determine if numerous inquiries reported on the credit 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 appearing on the credit report when there is not a recently established trade line reflected in the loan. The inquiry letter may be waived on Investor Cash Flow loans at underwriter's discretion. If a new account resulted from the inquiry, it must be verified, and the obligation included in the qualifying debt ratio calculation.

Section 7.4: Housing Payment History

The housing references provided or listed on credit may not exceed 1x30x12 in the aggregate, however, note that 1x30x12 may have an associated pricing adjustment. Any housing lates in the last 12 months preceding the application date and above the 1x30x12 that resulted in a Significant Derogatory Credit Event may be permissible subject to the requirements outlined below and may be subject to a price adjustment.

A borrower who is currently rent free or living without a housing payment history is eligible per guidelines, provided they are not a first time home buyer. Their current lack of housing payment

must be verified by rent free letter, deed of ownership, and/or any other supporting documentation that can prove status. Also, any housing payments they had responsibility for in the preceding 12 month period from application date must be documented.

Rental History

If an Applicant rents from a professional management company, a fully completed and signed VOR may be utilized. If an Applicant rents from a private landlord, the most recent 12 months’ consecutive cancelled checks (front and back) along with a copy of the lease must be provided.

Mortgages/HELOCs

If an Applicant has a mortgage from an institutional lender not reporting on credit, a fully signed and completed VOM may be utilized. If an Applicant has a private mortgage, the most recent 12 months’ consecutive cancelled checks (front and back) along with a copy of the note must be provided.

Section 7.5: Significant Derogatory Credit Events

Applicants who have completed any of the below within the four years preceding the application date are subject to additional guideline requirements based on length removed from the event completion date or discharge/dismissal date to application date. All events must have been completed prior to application date.

- Foreclosure
- Short Sale
- Deed in Lieu of Foreclosure
- Short Payoff
- Bankruptcy (any chapter, either dismissed or discharged and includes Applicants current in bankruptcy proceedings)
 - Note: Any Applicants who are in active Bankruptcy (any chapter) are not eligible
- Modifications
 - Exception exists when modifications are directly related to the resolution of a COVID related forbearance, it would not be considered a significant derogatory credit event. The forbearance guidance would apply in these circumstances and 3 payments following the end of the forbearance period would be needed
- 120+ day mortgage late

Note: Active NOD or Lis Pendens not allowed. An historic NOD or Lis Pendens is not against guidelines; however, the underlying event will be evaluated against the Significant Credit Event and Housing Payment History requirements guidelines.

Length of Time	Program allowed
0-2 Years Removed from Credit Event	<ul style="list-style-type: none"> • Doc Types Allowed: Full Doc Only • Maximum LTV: 70
2-4 Years Removed from Credit Event	<ul style="list-style-type: none"> • Doc Types Allowed: All • Maximum LTV: 75 <p>Note: Exactly 2 years removed from a credit event considered under this category</p>

Mortgage Tradelines in Forbearance

Applicants who had one or more mortgage trade lines placed in forbearance must meet one of the below requirements:

Payment History	Requirement
If all payments are made as originally scheduled during the forbearance period with no payments missed:	The account(s) in question must be reinstated prior to application but there is no waiting period.
If one or more payments on one or more accounts are missed due to forbearance:	<ul style="list-style-type: none"> • Then the account in question must be reinstated AND • Three monthly payments must be made as scheduled after completion of the forbearance period and prior to the application date <p>Note: An Applicant may have missed more than three payments during the forbearance period and/or have the missed payments be added onto the loan's unpaid principal balance and still be eligible under this guideline, provided the requirements listed here are met</p>

Non-Mortgage Trade Lines in Forbearance

Any non-mortgage trade line in forbearance may remain in forbearance, however the payment must be included in the Applicant's DTI/Debt Service.

Section 7.6: Judgment/Tax Lien

Any outstanding judgments or tax liens may remain open under the following conditions:

- Must be on a repayment agreement,
- Document the most recent 6 months' payments **preceding the application date** made in a timely manner,
- Include payment in the DTI or debt service, and
- If the judgment or tax lien is recorded against the property, it must be subordinated

If the conditions above are not met, the judgment or tax lien must be paid off prior to or at closing. Cash out proceeds may be utilized for this purpose

If borrower has tax deferred liability which is not a lien, refer to Fannie Mae guidelines

Section 7.7: Collections/Charge-Offs

Open adverse credit must generally be paid off prior to or at closing, however if an individual account balance is under \$2,500 and the aggregate of accounts outstanding is under \$10,000 it may remain open. Any collections or charge off's greater than this amount may remain open provided they do not and may not affect title. Otherwise, they must be paid off. Medical collections may remain open regardless of amount.

Section 7.8: Disputed Accounts

Any disputed accounts on an Applicant's credit report require additional due diligence. When an account in dispute is a collection account and the balance is less than or equal to \$250, the dispute may remain open. Otherwise, the following guidelines must be adhered to:

Account Status	Requirement
Account with zero balance and no derogatory information in the two years preceding the credit report date	<ul style="list-style-type: none"> • No action required
Account with zero balance and derogatory information in the two years preceding the credit report date including active collections and charge offs not excluded above	<ul style="list-style-type: none"> • Remove and pull new credit report
Account with a positive balance and no derogatory information in the two years preceding the credit report date	<ul style="list-style-type: none"> • No action necessary
Account with a positive balance and derogatory information in the two years preceding the credit report date including active collections and charge offs not excluded above	<ul style="list-style-type: none"> • Remove and pull new credit report

Note: A credit supplement is not allowed to document disputed accounts. A new report must be pulled.

Section 7.9: Other Derogatory Credit

Any derogatory credit on an Applicant's credit report in the last 12 months preceding application date not otherwise addressed must be acceptably explained by the Applicant. An underwriter may request an explanation of any patterns of delinquent credit outside of the 12 month period.

Section 7.10: Credit Counselling

Applicants who have experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Whether Applicants have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the Applicant's credit history that is of primary importance. The existence of credit counselling on a loan does not preclude financing under standard terms.

Section 7.11: Public Record Search

The underwriter 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 (Fraud Guard report, Lexis Nexis, reports, etc.) which leverage public, private, and proprietary data sources be utilized to aid in assessing credit profile.

Chapter 8: Liabilities

The liabilities of all Applicants must be accurately documented and considered in order to make a sound credit risk decision. This chapter of the guideline generally does not apply to the Investor Cash Flow product as the product qualifies on the debt service coverage ratio of the subject property only.

For each liability, underwriting 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 the underwriter 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 discovers additional liabilities after the underwriting decision has been made, up to and concurrent with the closing, the underwriter must recalculate the Applicant's debt-to-income ratio for loan closing qualification.

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.

Section 8.1: Alimony/Child Support/Separate Maintenance

For Full Documentation, Bank Statements, and 1099 Only, alimony may be deducted from income rather than included as a liability provided that the alimony payments are tax deductible to the payor. If not, the payments must be included as a liability.

For Asset Qualifier, it is included as part of the debt service.

Child support and separate maintenance must be included as a liability on all four product types. Document the terms of the payment via either the divorce decree, separation agreement, court order, or notarized agreement signed by all parties and their attorneys.

Section 8.2: Installment Debt (including Mortgages)

Installment loans (i.e., car loan, student loan, etc.) must be included in the DTI/Debt Service. Utilize the payment listed on the credit report for qualifying. Installment debt with less than 10 months remaining may be excluded from DTI/Debt Service, as long as the Applicant has the assets to make the remaining payments. Installment debt may be paid off with proceeds from a cash out refinance. Applicants may pay down the debt to less than 10 months to exclude the payment, the assets used must be sourced. Applicants may also pay off the balance on an installment debt to exclude the payment from the DTI/Debt Service. Source the funds utilized. If no payment listed, obtain documentation of the current payment. If the payment on an account is subject to imminent change (I.E., an ARM or Interest Only loan that is near adjustment) document what the new payment will be and utilize that payment in determining the DTI/Debt Service. See [Lease Payments](#) for information related to instances when installment debt is in the form of a lease. An authorized user account may be removed via supplement, and omitted from DTI/debt service, provided there is no evidence in the file the Applicant is paying the account in question. The following additional requirements apply on a TX 50(A)(6) loan:

- If the payoff of debt is a condition of qualification, the payoff(s) must be included on the closing statement and disbursed directly to the creditor by the title company.
- Luxury Mortgage may not require any other Luxury Mortgage debt be paid off as a part of the transaction as a condition of loan approval.

Section 8.3: Revolving Debt (including HELOC)

Use actual payment on credit report, unless the Applicant can document a lower payment. If no payment can be documented, use 5% of outstanding balance (except for a HELOC, in which case use 1%). If no balance, no payment needs to be included. Deduct 30 day charge accounts from available liquid assets or use 5% of the balance as a payment. 30 day charge accounts do not need to be considered on the Investor Cash Flow product. Revolving debt may be paid off prior to or at closing to have the payment excluded from the DTI/Debt Service. The account(s) do not need to be closed. When the Applicant pays off an account prior to closing, document the funds used for payoff. If paid at closing on a purchase or rate and term refinance transaction, document the Applicant brought the funds to closing necessary to pay off the account(s). If on a refinance loan proceeds will be used to pay off revolving debt, the transaction will be deemed cash out. An authorized user account may be removed via supplement, and omitted from DTI/debt service, provided there is no evidence in the file the Applicant is paying the account in question. The following additional requirements apply on a TX 50(A)(6) loan:

- If the payoff of debt is a condition of qualification, the payoff(s) must be included on the closing statement and disbursed directly to the creditor by the title company.
- Luxury Mortgage may not require any other Luxury Mortgage owned debt be paid off as a part of the transaction as a condition of loan approval.

Section 8.4: Student Loans

If a payment exists on credit report, use that payment. If deferred and no payment listed, use 1% of the outstanding balance, the **documented payment upon forbearance exit** or document the fully amortized payment.

Section 8.5: 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, the underwriter must be able to verify 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 6 months of canceled company checks), and
- The underwriter's 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 deducted on the tax returns 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 underwriter's analysis, or
- If the account in question has a history of delinquency.

To ensure that the obligation is counted only once, Luxury Mortgage will 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.

Section 8.6: 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) the Liability does not need to be considered as part of the Applicant's recurring monthly debt obligation. Verify through an executed copy of Divorce Decree and/or Settlement Agreement that the debt assigned to another party who is fully responsible for repayment of that debt.

Section 8.7: Co-Signed Loans

When an Applicant is obligated for a debt but can provide satisfactory proof that another party is obligated on the loan and making the payment, the liability does not need to be considered as part of the Applicant's recurring monthly debt obligations. The underwriter must be able to verify a history of documented payments on the debt made by another party and ascertain that there is not a history of delinquent payments for that debt (since this could be an indication that the other party might have to assume the obligation at some point in the future).

Generally, the other party 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:

- The payment history by the other party cannot be sufficiently documented, or
- The other party has a history of being delinquent in making payments on the debt.

For purposes of excluding a mortgage or HELOC, the co-signor may or may not be on title to the property tied to the loan in question.

Section 8.8: 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 a new lease contract obligation.

Section 8.9: Relocation Benefits

The PITIA 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, and
- At loan closing, a copy of the equity advance or a settlement statement must be provided as evidence of sale and release from liability.

Section 8.10: Deferred Installment Debt

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, the Applicant must obtain copies of the payment letters or forbearance agreements so that a monthly payment

amount can be determined and used in calculating the Applicant's total monthly obligations. If a payment cannot be determined, utilize 1% of the outstanding balance of the debt.

Section 8.11: Loans Secured by Financial Assets

When an Applicant uses his or her financial assets, such as 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. The underwriter is not required to include this contingent liability as part of the Applicant's recurring monthly debt obligations provided that the Applicant provides 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, Lender must 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 may be excluded from the DTI/debt service 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/debt service.

Section 8.12: Sale of Departing Residence

If the Applicant is under non-contingent contract to sell a departing residence, the DTI/debt service can be calculated excluding the prior housing expenses (PITIA), if an additional 6 months of PITIA on the home to be sold is verified. If the Applicant is **not** under contract to sell departing residence OR under contract to sell with mortgage contingencies not yet released, 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/debt service.

Chapter 9: Property

This section of the guideline addresses requirements related to the property to be encumbered by the mortgage.

Section 9.1: Acceptable Property Types

The following property types are acceptable:

- 1-4 unit attached and detached properties
- Attached and detached PUDs
- Attached and detached Condos which are warrantable under Fannie Mae/Freddie Mac criteria
- Non-Warrantable condos with one Non-Warrantable feature-see [below](#). Max **80** LTV. Pricing adjustments apply.
- Mixed-Use properties-see relevant guideline section

Section 9.1.1: Texas Home Equity Loans

The following additional requirements apply to Texas Home Equity Loans which fall under Article XVI, Section 50(a)(6). See the relevant [guideline section](#) for additional information.

- The property must be residential in nature. Properties used for agricultural purposes are not allowed.
- Single Family Residences Only
- The property's tax certification and exemptions must be reviewed and confirm the following:

- Property must be borrower's homestead in the state of Texas. Agriculturally designated homesteads are eligible with a 5% reduction to LTV.
- All separate structures must be included in the homestead exemption
- Only the parcel designated as the homestead parcel may secure the loan allowed (property may have to be surveyed out prior to the appraisal being ordered)
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel
- Properties deemed to be urban may not exceed 10 acres. Properties deemed to be rural may not exceed 20 acres, and those that exceed 10 acres must be common and customary to area with highest and best use as residential.
 - Urban properties are defined as follows:
 - Not more than 10 acres,
 - Property must be located within municipal boundaries, a municipality's extraterritorial jurisdiction, or a platted subdivision,
 - Served by police and paid or volunteer fire protection, and
 - Have at least three of the following services provided by a municipality or under contract to a municipality:
 - Electric
 - Natural Gas
 - Sewer
 - Storm Sewer
 - Water
 - Rural properties are defined as follows:
 - Note more than 20 acres, those that exceed 10 acres must be shown to be common/customary and highest and best use,
 - Property is not located within municipal boundaries or a municipality's extraterritorial jurisdiction, or, if the property is located within one of those areas it is not served by police protection or fire protection provided by the municipality or under contract to a municipality, and
 - The municipality provides directly or under contract less than three (3) of the following services:
 - Electric
 - Natural Gas
 - Sewer
 - Storm Sewer
 - Water

Section 9.2: Unacceptable Property Types

The following property types are unacceptable:

- Acreage greater than 20 acres (appraisal must include total acreage)
- Agricultural zoned property that is greater than 20 acres. See [here](#) for properties on not greater than 20 acres.
- Multi Unit Properties with ADUs (considered on an exception basis)
- Condo hotel
- Hobby Farms
- Income producing properties with acreage
- Log Homes (may be eligible on a case-by-case basis)

- Manufactured housing
- Modular homes
- Properties subject to oil and/or gas leases
- Unique properties
- Working farms, ranches, or orchards
- Coops
- Properties with a condition rating of C5 or C6

Section 9.3: Appraisal Requirements

All 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. The appraisal must be ordered in a manner compliant with Dodd-Frank’s AIR requirements.

Generally, all appraisals must be completed by a Luxury Mortgage approved Appraisal Management Company (AMC). In instances when the Applicant has already had an appraisal completed by another lender, Luxury Mortgage will consider utilizing the previously completed report(s) provided all other requirements of this section including regulatory compliance are met. The ultimate decision on acceptance of an appraisal report completed for another lender will be made by Credit Risk Management. At a minimum, the following documentation will be required for each transferred appraisal:

- Copy of appraiser’s license
- Copy of appraiser’s E&O insurance declaration page
- AIR Certification from the appraisal management company who facilitated the order
- Assignment letter from previous lender
- A Collateral Desktop Analysis (CDA) with variance between 0 and positive 10%, inclusive

Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to the Applicant promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Number of Appraisals Required

The table below addresses the number of appraisals for a loan. Any requirements per regulation (such as HPML) supersede this requirement.

Loan Amount	Appraisal Requirement
≤ \$2,000,000	One Full Appraisal
> \$2,000,000	Two Full Appraisals
HPML Loan with a Flipped Property	Two Full Appraisals

Age of Appraisal

As of the note date, the appraisal report(s) may not be more than 120 days old. A recertification of value is acceptable to extend the expiration date of the report provided the original report is not more than 180 days old as of the date of closing.

Determining Collateral Value

Collateral valuations impact the determination of the loan-to-value ratios, as well as approval and identification of exceptions. Loans wherein the best usage is as a “tear down” and replace

are not eligible. The methods for determining collateral value are different for purchase versus refinance transactions.

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. For cash out refinances where the property is owned less than six months as of the application date, lesser of purchase price or appraised value must be utilized. For properties owned less than 12 months as of the application date, current value may be used provided the value is supported both by appraisal and a secondary valuation source to be chosen at underwriter’s discretion. If value not supported, use lesser of purchase price plus documented improvements or market value. If more than 12 months, use market value.

For Technical Refinance use lesser of purchase price or appraised value. See Technical Refinance section for details

Appraisal Review Requirements

All appraisals are subject to review and acceptance by Luxury Mortgage. Loan amounts above \$1.5MM and up to \$2MM may not utilize the CU score in lieu of obtaining a CDA. Additional appraisal due diligence may be required at the discretion of underwriting.

Section 9.4: Condominiums

A condominium is a form of ownership where the Applicant has title to their individual unit along with an undivided share of the condo’s common elements. Condominium applications submitted should be warrantable to Fannie Mae’s or Freddie Mac’s criteria. Limited review is eligible based on the below table. All others must undergo a full review. Non-Warrantable condos are subject to the Non-warrantable condo criteria and will be subject to a pricing adjustment. The following documentation must be provided for condo submissions:

- Condo questionnaire (depending on the review being completed)
 - Project review waiver may be applicable if projects meet waiver requirements
- Master insurance certificate including all required coverages (See Insurance)
- Most recent budget (when utilizing a full review)
- Recorded declarations/CC&R’s and by-laws (when project does not meet established criteria)
- Other documentation as required by underwriting to complete project review

Limited review table-all states

Limited Review-Established Condo Projects	
Occupancy Type	Maximum LTV/CLTV/HCLTV
Principal residence	90/90/90
Second home	80/80/80
Investment property	80/80/80

Note that limited review is eligible for established projects only. 2-4 unit and detached condos follow Fannie Mae’s or Freddie Mac’s guidelines.

Section 9.4.1: Non-Warrantable Condominiums

Condo projects which do not meet Fannie Mae warrantability criteria may be acceptable under the Simple Access program, depending on the reason it is not warrantable. Condos which are otherwise warrantable but ineligible due to one of the following criteria may be considered. A condo which has multiple features that would deem it non-warrantable is not acceptable. A non-warrantable condo requires a full condo review. Non-Warrantable condos are subject to a pricing adjustment. Max 80 LTV for a non-warrantable condo. **Maximum of one non-warrantable condo feature is allowed.**

Owner Occupancy Requirement on Investment Property

An investment condo unit situated in a project which meets Fannie Mae's presale requirements for number of units sold but does not meet Fannie Mae's owner occupancy requirement is eligible under the Simple Access program. This guideline can be used for either a new or an established condo project.

First Closing in a Non-Owner Occupied Unit

An Applicant whose closing will be the first in a new condo project is acceptable. In order to be the first closing for a non-owner occupied unit, a 70% presale requirement must be met.

Single Entity Ownership

A single entity may own up to 30% of the units in the project (excludes the sponsor in an initial marketing phase, where this cap does not apply). **May consider higher percentage on exception basis**

Low Presales

40% presold is acceptable for a condo project. The underwriter must perform additional due diligence by reviewing the sales history of the project.

Insufficient Budgeted Reserves

A condo which undergoes full review and has less than 10% of reserves budgeted may be acceptable. The management company must advise what their intent is to fund future capital improvements and provide the last two years financials (audited, if available).

Commercial Space

A condo project comprised of up to 50% commercial space is acceptable, provided it is common and customary to the area and does not have an adverse impact on marketability. **However, a single entity may only own up to 30% of the units in the project (excludes the sponsor in an initial marketing phase, where this cap does not apply)**

PERS Review

Condo projects that would ordinarily require a PERS approval may be approved under full review criteria.

Rent Stabilized Units

Condos which do not meet the presale or owner occupancy requirements due to a high number of rent stabilized units may have those units excluded from the relevant calculations. For example, a condo with 100 units of which 50 are rent stabilized would only be deemed to have 50 units. If 40 of the 50 units are sold, then it would be deemed 80% sold. The developer must confirm it has the intent to sell the units as they become available. If this is the only criteria that would deem the condo to be non-warrantable, then the condo is warrantable for purposes of this program. A maximum of 20% of the units in the project may be deducted from the unit count.

Section 9.5: Mixed Use Properties

Mixed Use properties are allowed under the Simple Access Product Suite. Examples of this would include Business use in addition to residential use, such as property with space aside for a day care facility, a beauty or barber shop, or a doctor's office. Mixed use properties outside of

FNMA's criteria are subject to a maximum LTV of the lesser of 75 or guidelines. The following also applies:

- The property may consist of one commercial unit and up to three residential units,
- The Applicant may, but is not required to be, be both the owner and the operator of the business. On investor Cash Flow loans, the Applicant may not occupy either the property or operate/own the business that operates out of the commercial unit,
- The property must be primarily residential in nature. For purposes of this guideline, primarily residential is deemed to be 51% or more residential square footage,
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property, and
- The Applicant may either occupy the property as a primary residence or hold it for investment purposes.

The property must meet appraisal requirements for mixed use properties. The property must be appraised on a 1025 form by a general appraiser.

Appraisal must indicate:

- A detailed description of the mixed-use characteristics of the subject property,
- That the mixed use of the property is a legal, permissible use of the property under the local zoning requirements,
- Any adverse impact on marketability and market resistance to the commercial use of the property, and
- Market value of the property based on the sales comparison approach, rather than the income based approach.

Section 9.6: Agriculturally Zoned Properties

Properties which are agriculturally zoned but are not situated on more than twenty acres may be considered acceptable. To proceed, the appraiser must confirm no adverse impact to marketability as a result of the zoning designation and that there is no agricultural use at the property. All other standard appraisal and property conditions considerations must be followed.

Section 9.7: Unpermitted Additions

Unpermitted additions are allowed on a case by case basis at underwriter's discretion. The appraiser must comment that the addition was completed in a workmanlike manner and demonstrate that the addition does not have any adverse impact on marketability.

Section 9.8: Deferred Maintenance

Any items that the appraiser notes of deferred maintenance must be reviewed on a case by case basis. If appraisal is marked as "subject to" rather than "as is" then the required work must be completed prior to closing.

Section 9.9: Escrow Holdbacks

Escrow holdbacks may be considered on a case by case basis. The holdback amount will generally be 1.5 times the cost to cure.

Section 9.10: 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 and whether or not there are safety release latches installed and provide photos of the release latches, or
- All bedrooms must have adequate egress to the exterior of the home. Appraiser must provide comments

Section 9.11: Deed Restricted Properties

Generally, Luxury Mortgage does not finance properties with deed or resale restriction(s). Properties that are subject to deed or resale restrictions such as those listed below must be approved by Luxury Mortgage prior to submission.

- Resale restrictions are either a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owner of the land.
- Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income Applicants.
- The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions.
- The resale restrictions are binding on current and subsequent property owners and remain in effect until they are formally removed or modified, or terminated in accordance with their terms, that being at foreclosure or acceptance of deed in lieu of foreclosures, or after a specific number of years.
- Private Tax Fee
- Resale restrictions related to age (55+ communities)

Section 9.12: Leasehold Properties

Generally, a leasehold property is a property type whereby the property owner possesses (owns) the improvements, and the land is owned by another individual who leases the land to the property owner.

Given the dependence on the maintenance of a contractual leasehold agreement with a third party, leaseholds are considered to have more legal implications than properties owned outright, regardless of the stated length of the lease. Conditions for leasehold acceptance:

- The appraiser must produce a detailed description of the terms, conditions, and restrictions of the ground lease,
- The appraiser must consider and report any effect the terms of the lease have on the value and marketability of the mortgaged premises,
- The leasehold must run five years beyond the maturity date of the mortgage, this requirement does not apply if fee simple title will vest in the Applicant or an owner's association at an earlier date,
- Due to the complexity of the lease, a copy of the underlying lease (and sublease if applicable) must be obtained and reviewed by Luxury Mortgage as needed,
- When sales of similar properties that have the same lease terms are available, the appraiser should use these sales as comparable sales,
- If there are no comparable sales of leasehold properties, the appraiser should use sales of similar properties owned in fee simple as comparable sales, and
- The lease must meet all standards identified in "Additional Requirements" in this section.

Additional Requirements

The leasehold must meet the following requirements:

- The lease must provide that the Applicant will pay taxes, insurance, and owner's association dues relative to the land in addition to those being paid on the improvements,
- The lease is valid, in good standing, and all assessments due are paid,
- The lease is assignable and transferable without restriction, or upon payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee. The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor,
- The lease must provide for no default provisions except for non-payment of lease rents, or failure to adhere to typical covenants and restrictions,
- All rents must be current,
- The lease must have a provision to protect a mortgagee's interest in the event of foreclosure or condemnation,
- If the lease has an option for the Applicant to purchase the fee interest in the land, the option must be the Applicant's sole option and must be assignable. If exercised, the mortgage must become a lien on the title in the same priority it had on the leasehold,
- Any potential increase in rent payments must be factored into the Applicant's housing payment and analyzed when calculating the Applicant's housing payment and analyzed when calculating the Applicant's debt to income ratio. Also, the appraiser must assess the impact of such an increase on the future marketability of the property,
- The lease must provide for notification of default by Applicant to the mortgagee (usually within 30 days),
- The lease must allow the mortgagee to cure the default, at least a 30-day cure period, or take over Applicant's rights under the lease,
- The lease must protect mortgagee's interest in the event of condemnation,
- The lease must constitute real property that is subject to a mortgage lien that can be insured by ALTA Leasehold Title Insurance Policy and Hazard Insurance Policy,
- The lease must be recorded in public land records and executed by all parties,
- The lease must provide Applicant will retain voting rights in any owner's association,
- The mortgage must cover the property improvements as well as the leasehold interest in the land,
- The leasehold must be common for the area and readily marketable. The appraiser should address this and advise if there is any negative impact on value or marketability. Comparable provided should also be leasehold properties,
- When the property improvements for a leasehold estate are already constructed as the same time the lease is executed, the initial purchase price should be established as the appraised value of the land on the date the lease is executed. (If the lease is tied to an external index, - such as the Consumer Price Index (CPI) - the initial land rent should be established as a percentage of the appraised value of the land that the lease is executed, and the purchase price may be adjusted annually during the term of the lease to reflect the percentage increased or decreased in the index from the preceding year), and
- When the property improvements for a leasehold estate will be constructed after the lease is executed, the purchase price of the land should be the **lower** of: the current appraised value of the land or the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. (If lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the lands and improvements).

Section 9.13: 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 and cancelled checks are 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 loan 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, and
- The transaction must meet the requirements for a rate and term ("no cash out") refinance.

Section 9.14: 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 does 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 party contributions must be:

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

Seller Credit/Financing Contributions

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 pre-pays, and escrow costs. The total of financing contributions may not exceed the lesser of the total of the closing costs and pre-pays or the LTV described in the guideline below.

Maximum Financing Contributions

Full Documentation, Bank Statements, 1099 Only, Asset Qualifier

On a primary or second home, 9% up to 75 LTV and 6% to 90 LTV.

On an investment property, 3%.

Investor Cash Flow Product

3%.

Section 9.15: Properties Recently Listed for Sale

On a refinance where the property has been listed for sale in the last 6 months, the property must be delisted prior to application and the Applicant must provide an acceptable motivation letter on their intent to retain the property going forwards. Extra due diligence shall be performed in the case of a cash out refinance.

Section 9.16: Declining Markets

In the event an appraisal indicates a property is located in a declining market, the file will be subject to review by Credit Risk Management.

Chapter 10: Underwriting Requirements

Luxury Mortgage 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 will originate 1-4 family mortgage loans that are in compliance with the Dodd-Frank Ability to Repay (ATR) rule as defined in 12 CFR 1026 unless exempt by definition. Luxury Mortgage Corp. will comply with all state and federal guidelines regarding points and fees.

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

- 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 determined in accordance with these guidelines, and
- The consumer's credit history.

Section 10.1: ARM Features

Cap structure: 2/1/5

Index: 30 Day Average of SOFR

Floor Rate: Note Rate

Adjustment Period: 6 Months

Margin:

- Full Documentation: 4.000%
- Bank Statements/1099 Only/Asset Qualifier: 4.250%
- Investor Cash Flow: 4.500%

Section 10.2: Loan Term

The standard loan term under the Simple Access product is 15 or 30 years. 40 year term loans are eligible for loans with an interest only payment feature, a maximum LTV of 80, and on all doc types other than Investor Cash Flow. **40 year term loans are also not available on 5/6 ARM products.**

Section 10.3: Qualifying Ratios

Note that these requirements are superseded by any regulatory requirements such as HPML, unless exempt by definition.

Fixed Rate Loans

Fixed rate loans are qualified at the note rate.

Amortizing ARM Loans

Full Documentation, Bank Statements, 1099 Only, and Asset Qualifier

Amortizing ARM Loans Qualify at the greater of the start or the Fully Indexed Rate (index + margin) over the life of the loan.

Investor Cash Flow

Qualify the Applicant at the start rate.

Interest Only Loans

Full Documentation, Bank Statements, 1099 Only, and Asset Qualifier

Qualify at the applicable FRM/ARM rate (see above) based on the amortizing term of the loan. The interest only term is 10 years. The following amortization terms would be used for qualifying on a 30 year term loan. A 40 year term loan would qualify based on a 30 year term.

The 40 year term option is not available on a 5/6 ARM product.

- **5/6 IO ARM: 20 years**
- 7/6 IO ARM: 20 years
- 10/6 IO ARM: 20 years
- 30 FRM w/ IO: 20 years
- 40 FRM w/ IO: 30 years

Note: IO feature not allowed for TX 50(A)(6) loans

Investor Cash Flow

Qualify the Applicant at the start rate based on a 30 year term, unless the loan qualifies to utilize the Interest Only payment to calculate the DSCR.

Section 10.4: Debt To Income Ratio (DTI)

To determine the DTI on a loan (when applicable), divide the gross monthly expenses by the gross monthly income. Note that the DTI figure is a precise calculation and may not be rounded down to determine qualification. The standard maximum DTI on Full Doc, Bank Statement, and

1099 Only is 50.000. The DTI may be increased to 55.000 when the following requirements are met:

- Min FICO: 680
- Max LTV: 70
- Eligible Transactions: Purchase or Rate and Term Refinance
- Minimum Residual Income: greater of .5% of the loan amount or \$2k.

In instances where a file has a DTI >50.000, the monthly residual income is tested to determine the post-closing reserve requirement. If the Applicant has the greater of \$2k per month or .5% of the loan amount in monthly residual income, then no additional reserves are necessary and standard requirements are followed. If the Applicant does not meet this requirement, they must have an additional 6 months PITIA on the subject property above and beyond all standard requirements. In no case may the residual income be below \$1,500 per month. Utilize the Simple Access Residual Income Calculator to determine any residual income requirement.

No DTI is developed for either the Asset Qualifier or Investor Cash Flow products.

The residual income for the Asset Qualifier product must meet or exceed \$1,500 per month. For purposes of the product, gross income is determined by taking assets to be utilized for Asset Qualification and dividing by 48 months. Do not impute tax deductions when determining residual income.

Section 10.5: Loan To Value and Combined Loan To Value Calculations

The Lender must 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:** Loan Amount/Lower of sales price or appraisal value
- **Refinance Transaction:** Loan Amount/Value utilized for underwriting

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 Loan Amount + all subordinate financing, including the credit limit of any Home Equity Lines of Credit regardless of amount drawn) by the value to be utilized for the transaction.

See [Determining Collateral Value](#) for additional information

Section 10.6: Subordinate Financing

Subordinate financing is eligible for this product. See the liabilities section of this guide for payments to be utilized. The CLTV (as calculated above) must be in compliance with the product guidelines. New and existing subordinate financing is permitted.

Subordinate financing does not need to be institutional in nature, but it must comply with the below guidelines:

- Variable payment mortgages that comply with the details below.
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgages with deferred payments only in connection with employer subordinate financing (see below).
- Mortgage terms that require interest at a market rate. If the note does not contain a rate of interest (i.e., a seller held second), impute a market rate of interest with an interest only payment calculation.

The following are unacceptable subordinate financing features:

- May not contain negative amortization
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments).

Subordinate financing with either of the last two features may be acceptable when the amount of the debt relative to the Applicant's financial assets and credit profile is of minimal impact.

Section 10.7: Limitations on Other Real Estate Owned

Loan/Property restrictions per Applicant are as follows:

- Applicants are collectively limited to eight (8) loans issued by Luxury Mortgage not to exceed \$10,000,000 under the Simple Access Program.
- Applicants with > 15 financed properties are not eligible for any 2nd home or investment property transaction (purchase, rate/term, or cash-out). This is aggregate based on all Applicants
 - >15 and up to 30 financed properties are allowed however this is limited to Investor Cash Flow Program only.
- Applicants with >10 financed properties will require a PFS, rather than listing on the schedule of REO
- Applicants may have Luxury Mortgage financing on a maximum of 10% of the properties in a PUD or condominium project.
- For projects ≤ 10 total units, financing on a maximum of 1 unit is allowed

Luxury Mortgage financing is limited to a maximum overall concentration of 20% in any Florida condominium project. This limitation is per project and not per Applicant.

Section 10.8: Short Sale

Homes purchased through a short sale may be eligible for financing. The underwriter must diligently review purchase transactions for possible red flags that could indicate suspicious activity related to the short sale and that would subsequently render the loan ineligible.

Short Sale Fee Documentation

The following documentation is required for the loan.

- 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 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 Settlement Statement must include all fees and payment included in the transaction.

Section 10.9: Power of Attorney

A power of attorney is allowed. Except as otherwise required by applicable law, or unless they are the Applicant's relative (or a person who is a fiancé, fiancée, or domestic partner of the Applicant), none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- The lender,
- Any affiliate of the lender,
- Any employee of the lender or any other affiliate of the lender,
- The loan originator,
- The employer of the loan originator,
- Any employee of the employer of the loan originator,
- The title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate, or
- Any real estate agent that has a financial interest in the transaction or any person affiliated with such real estate agent.

A Power of Attorney (POA) is ineligible for cash-out refinance loans or loans where title is vested in an entity/trust.

In the event there is only one Applicant on the loan, the appointed individual signing on behalf of the Applicant must be either a relative or their attorney at law.

Section 10.10: Prepayment Penalties

Prepayment penalties may be placed on investment properties (all documentation types) where allowed by state and federal law. The standard prepayment penalty term is 3 years, unless a shorter period is either chosen or required by state or federal law. **If the prepay length is adjusted or prepay removed, pricing implications apply.** Any pay downs (including complete payoff) which exceed 20% per year are penalized in an amount not less than **3.75%** of the amount prepaid which exceeds 20% of the original principal balance, unless restricted by state/federal law.

Any loan which has a prepayment penalty must be a business purpose loan as defined in 12 CFR 1026.3(a). **To that end, proper documentation of the loan's business purpose must be provided. Depending on the specifics of the file, this may include but is not limited to a certification of business purpose, a cash out LOE from Applicant confirming intended use of loan proceeds as being for a business purpose, or some other relevant documentation. Any loans that are consumer purpose based on either intended occupancy or purpose of loan proceeds including cash out proceeds may not close with a prepayment penalty.**

For example, a purchase of an investment property which will be occupied by a family member would be a consumer purpose loan. A cash out refinance where the intended use of the cash out proceeds is to pay personal debt would be a consumer purpose loan.

Any Investor Cash Flow with an LTV >70 and DSCR < 1.0 must have at least a 1 year prepayment penalty.

Section 10.11: Regulatory Requirements

Any regulatory requirements that apply supersede the requirements of this guideline.

Higher Priced Mortgage Loan (HPML)

A Higher Priced Mortgage Loan (HPML, better defined in 12 CFR 1026.35) is a loan secured by an Applicant's principal residence where the Annual Percentage Rate (APR) exceeds the Average Prime Offer Rate (APOR) by 1.5% or more for a loan whose principal balance under or equal to maximum amount loan amount that would be purchased by Freddie Mac based on the property's type and location or where the APR exceeds the APOR by 2.5% or more for loan balances greater than those which would be purchased by Freddie Mac based on the property's type and location.

The following requirements apply (these are examples and not an exhaustive list of requirements):

- Compliance with ATR must be fully documented
- Escrows are mandatory for a minimum of 5 years
- No prepayment penalties allowed
- A second appraisal is required if the seller of a property acquired the property less than 90 days prior the new contract date and there is an increase in value of 10% or more; OR if the seller acquired less than 180 days ago and there is an increase in value of 20% or more.

High Cost Loans

Loans which are deemed High Cost Loans are not eligible for this program. Please refer to applicable Federal, State, and Local law for the definition and scope of High Cost

High Cost Loans	<ul style="list-style-type: none">• APR exceeds APOR by more than 6.5%• Total lender/broker points and fees exceed 5% of total loan amount<ul style="list-style-type: none">○ Includes but not limited to: origination fee, broker fee, processing fee, underwriting fee, document preparation fee, wire fee, and loan servicing set up fee.
-----------------	---

Points and Fees

Points and Fees, as calculated in accordance with 12 CFR 1026.32, may not exceed 5%. This figure excludes the maximum prepayment penalty that may apply. Any loan that is subject to a Federal, State, or Local regulation that has a lower point and fee limit to avoid a High Cost designation would follow the more restrictive requirement.

Section 10.12: Exceptions

If the approval of a loan constitutes a deviation from the Underwriting Guidelines, the deviation will be classified as an exception. The exception should be requested prior to submission of the loan, if possible. The exception approval should be maintained with the loan. If the details of the loan should change adversely from the original exception, the exception must be re-approved prior to closing.

Section 10.13: Mortgage Insurance

Not required

Section 10.14: Minimum/Maximum Loan Amounts

Standard Applicants

Minimum Loan Amount: \$150,000 (all occupancies)

Maximum Loan Amount:

- \$4,000,000 (purchase/rate and term refi)
- \$2,500,000 (cash out refi)

Foreign National Applicants

Minimum Loan Amount: \$200,000

Maximum Loan Amount:

- Purchase/Rate Term Refinance: \$3,000,000 (all occupancies)
- Cash Out Refinance: \$2,500,000 (all occupancies)

Loan sizes >\$3MM require Credit Risk Management review.

Chapter 11: Title Vesting

The following forms of title vesting are eligible for this product

Section 11.1: Individual Names

Applicants may take title to the property in the individual names as tenants in common, joint tenants, tenancy by the entirety, or community property (with or without survivorship). Not all Applicants need to be on title so long as at least one is, unless required by the manner of title or state law.

Section 11.2: Living Trust

An *inter vivos* revocable (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.

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 loan.

Luxury Mortgage will accept a fully executed Trust Certificate in lieu of the complete trust agreement in states where it is customary to do so.

Irrevocable Trusts are **not** eligible for financing

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 so as to ensure full recourse against the underlying creators/Applicant. The creator/Applicant will sign the Note individually as guarantor(s),
- The trust complies with all applicable state and local laws and regulations, and
- The trust meets the requirements of Fannie Mae

Section 11.3: Blind Trust

A blind trust is a trust in which the trustee(s) or those to whom power of attorney has been given, have full discretion over the assets, and the trust beneficiaries have no knowledge of the holdings of the trust and no right to intervene in their handling. Blind trusts are generally used when a settlor (sometimes called a trustor or donor) wishes to keep the beneficiary unaware of the specific assets in the trust, such as to avoid conflict of interest between the beneficiary and the investments.

Legal Requirements for Blind Trusts

- The Blind Trust must be set up as revocable trust,
- Loan documents are to be executed so as to ensure recourse against the underlying creators/Applicant. The creator/Applicant will sign the Note individually as guarantor(s), and
- The trust complies with all applicable state and local laws and regulations,

An attorney opinion letter should be provided

Required Verbiage for Blind Trusts

The governing Trust document must be amended to include the following language.

REPAYMENT OF LOAN

Anything contained herein to the contrary notwithstanding, with regards to that certain loan dated [date], between Grantor and [lender] **or its successor in interest or any subsequent purchaser or assignee of said loan** as collateralized by the note and mortgage assigned to this trust ("Loan"), said Loan, plus any interest and penalties related thereto shall be repaid upon the death of Grantor prior to any distribution made to any beneficiary under this trust or any amendment and/or restatement thereto.

Section 11.4: Land Trusts

A land trust is a trust in which the real estate is declared as personal property under the terms of a trust agreement. The trustee holds legal and equitable title to that property subject to the provisions of the trust agreement that sets out the rights of the beneficiaries. A property owner will transfer the property title to a corporation or financial institution that currently is in the business of acting as trustee under an "Illinois Land Trust". Concurrently, the owner (beneficiary) retains the power to manage, sell and control the property. There are two parts to the "Illinois Land Trust":

- The "Deed of Trust" that transfers the title from the beneficiary to the trustee, and
- The "Trust Agreement" that states the rights and power of direction.

The trust agreement must ensure that for all land trusts, regardless of product type:

- At least one Applicant must be a beneficiary of the trust
- The trustee must be an Institutional Trustee
- The title search results must be consulted to ensure that current title reflects an accurate Trust Number and Trust Date
- If the current trustee differs from the one referenced in the trust documents, documentation must be provided to explain the discrepancy
- If the trust's term (as stated in the trust documents) have expired, additional documentation must be provided to demonstrate that it has been renewed and are in effect

Additionally:

- A letter from the Institutional Trustee must certify that Luxury Mortgage will be notified if the trust attempts to change its name,
- The Note must be signed by the Applicant(s) and by the Institutional Trustee,
- The Mortgage or Deed of Trust must be signed by the trustee only, and
- A Power of Attorney is not allowed

Section 11.5: Limited Liability Company (“LLC”)

An LLC is a non-corporate business whose owners actively participate in the organization's management and are protected against personal liability for the organization's debts and obligations. LLCs formed in the US are eligible subject to the requirements below. **All Applicants will sign the note individually.** Any non-borrowing member of the LLC must sign the note and mortgage/deed of trust in their capacity as member of the LLC.

- Must be legal in the state in which the LLC is being formed,
- LLC must generally be formed in the same state where property is located. **Out of state LLCs are permitted provided the LLC registers in the state where the subject property is located as a foreign entity**
- Maximum 4 members who must be natural persons. A natural person is not a trust or other entity.
- Members of the LLC must be beneficial owners of the property,
- The operating agreement must provide the term of the LLC and the members authorized to encumber the LLC as guarantors,
- At least one member of the LLC is required to qualify for the loan and to guarantee the loan. Additionally, the Applicants on the loan must combined to own >50% of the LLC. If all members of the LLC are not Applicants on the loan, then a six-month lookback will be completed as of the application date and any members whose ownership has been reduced below 50% during this time period would need to be added to the application. If the LLC was formed less than six months ago, the lookback period will be measured from LLC creation date to application date,
- LLCs are acceptable in all lending areas and all occupancies.

Documentation Requirements

- Articles of Organization
- Operating Agreement
- Unanimous Consent & Resolution to Borrow, which must include lender name, loan amount, and property address
- SS-4 form or equivalent listing federal tax ID Number

- Certificate of Good Standing from the Secretary of State's office for the state where the LLC was formed dated within 60 days of the note date. **If LLC formed in a state other than that were subject property located, a Certificate of Good Standing is needed from both the state of incorporation and the state where the subject property is located**

Section 11.6: Partnerships and Corporations (not LLC's)

Vesting in the name of a partnership or corporation is acceptable. The entity must be legally formed, domestic to the state where the property is located. If the entity is formed outside of the state where the subject property is located, the entity must also be registered in the subject property's state. At least one shareholders/partners/members must be an Applicant and meet all underwriting criteria. Additionally, the Applicants on the loan must combined to own >50% of the entity.

Status of Entity	Requirement
If all shareholders/partners/members of the entity are not Applicants on the loan	<ul style="list-style-type: none"> • Then a six-month lookback will be completed as of the application date and • Any shareholders/partners/members whose ownership has been reduced below 50% during this time period would need to be added to the application
If the entity was formed less than 6 months ago	<ul style="list-style-type: none"> • The lookback period will be measured from entity creation date to application date

Any non-borrowing shareholder/partner/member will be required to sign the note and mortgage/deed of trust in their capacity as shareholder/partner/member. Max four shareholders/partners/members, all of whom must be natural persons.

Documentation Requirements

- Articles of incorporation
- Partnership agreement, by-laws, or equivalent
- SS-4 Form or equivalent listing federal tax ID Number
- Share certificates or equivalent documentation showing ownership
- Certificate of Good Standing from the Sec of State Office for the state where the entity was formed dated within 60 days of the note date. **If the entity was formed in a state other than that were subject property located, a Certificate of Good Standing is needed from both the state of incorporation and the state where the subject property is located**
- Unanimous Consent & Resolution to Borrow, which must include lender name, loan amount, and property address

Chapter 12: Insurance

Section 12.1: 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. Hazard Insurance is required for all 1-4 unit attached and detached properties. An individual Homeowners policy is acceptable for 2-4 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 must include evidence of 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 as the loss payee.
- The insurance must be maintained throughout the duration of the loan.

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:

Documentation Provided	Requirement
If a master policy provided by HOA includes full insurance protection for the individual (both exterior and walls-in) as well as the common areas	No further documentation required
A master policy provided by HOA includes coverage for the exterior of the unit as well as common areas.	The homeowner must then provide a walls-in policy
A master policy provided by HOA 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 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, or
- Standard and Poor’s Inc. – “BBB” or better insurer financial strength rating in Standard and Poor’s Rating Direct Insurance Services.

Luxury Mortgage 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, 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
- 100% of the insurable value of the improvements as established on a replacement cost estimator by the insurer or coverage amounts as determined by Luxury Mortgage’s calculation from a full appraisal.

Luxury Mortgage 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 principal residence and 1-4 unit investment properties rental loss insurance is not required.

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 will lender place insurance (at Applicant's expense) on any collateral where the Applicant's act of omission or commission nullifies the required insurance coverage.

Section 12.2: 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 Life of Loan Flood Certificate provided by the Federal Emergency Management Agency (FEMA). In addition, the appraisal report should accurately reflect the flood zone.

Luxury Mortgage requires that a completed Life of Loan Flood Certificate (FEMA Form 81-93) be included with the loan.

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 lowest of:
 - 100% of replacement cost of dwelling,
 - The maximum insurance available from the National Flood Insurance Program (NFIP),
 - or
 - 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 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), and
- The insurance must be maintained throughout the duration of the loan.

Luxury Mortgage 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.

Section 12.3: 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. 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 report/commitment/certification is valid for 60 days. See [Texas Home Equity Loans](#) for additional information that may be needed.

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, and/or
 - Rights of parties in possession (Vesting).
 - Tenants under unrecorded instruments, and
 - 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 CLTA 110.8 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), and/or
 - Leasehold Endorsement is required for all leasehold properties.

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 must be listed.

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; and
- 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.

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, and
- Liens for real estate or ad valor taxes and assessments not yet due and payable.

Survey Requirements

If not insured against loss by title insurance, a survey will be provided to the title agent for review and removal of the survey exception. 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. See [Texas Equity Loan](#) guidelines for specific requirements on Texas Cash Out transactions.

Section 12.4: 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 requires the following the following insurance for condominium projects:

Hazard Insurance

Luxury Mortgage will accept condominium hazard coverage as detailed in Fannie Mae's Correspondent Seller Guide, Hazard and Flood Insurance, or coverage which complies with the following:

✓	Requirements:
	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.
	If policy includes a coinsurance clause, Luxury Mortgage requires an " <i>Agreed Amount Endorsement</i> " to waive the requirement for coinsurance,
	Operating reserve accounts must include funds to cover the deductible amounts for the condominium project.

Acceptable Rating Categories

Luxury Mortgage 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, or
- Standard and Poor's Inc. – "BBB" or better insurer financial strength rating in Standard and Poor's Rating Direct Insurance Services.

Luxury Mortgage 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, 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:

- A "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost, or
- A "*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 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 will accept condominium flood insurance as detailed in the relevant section of Fannie Mae's Guide.

Title Insurance

Luxury Mortgage will require condominium title insurance as detailed in the relevant section of Fannie Mae's 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 will accept the state fidelity insurance requirements. The following requirements apply:

✓	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
- Maximum \$25,000 Deductible

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.

✓	Requirements:
	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 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.

Chapter 13: Foreign National Applicants

Foreign Nationals are defined as Applicants who do not work in or reside in the U.S. The Applicant must reside in and work in a foreign country. Foreign Nationals are eligible under the Simple Access product series to purchase or refinance either second homes or investment properties. First Time Home Buyers may be eligible, under the same guidelines as standard First Time Home Buyer Applicants. Foreign Nationals may purchase property in an entity, subject to the entity section. All other underwriting requirements must be met. See [Exhibit C](#) for LTV/FICO/Loan Amount matrices.

An IRS form W-8BEN, Certificate of Foreign Status must be filed with the IRS (all Applicants). A copy of the Certificate must be retained in the file.

Any documentation provided from an Applicant's home country must be provided in its original language listing that country's currency, as applicable. A certified translation must also be provided.

Section 13.1: Visa Requirements

Applicants must provide a legible, valid foreign passport AND visa. The visa must evidence that the Applicant has legally entered the US, though no defined length of stay is required. The passport and visa should contain all necessary information on the Applicant and include a

photograph and signature. Applicants who are citizens of Canada do not need to present a visa. Applicants who are from countries on the State Department’s Visa Waiver Program do not need to present a Visa, however they must present their passport and the applicable paperwork related to the visa waiver program. Applicants who are citizens of Mexico may provide one of the following to meet the visa requirements:

- A laser visa card; it is both a border crossing card and a B1/B2 visa, or
- A NAFTA treaty visa (TN, TC, E1 & E2)

Applicants with diplomatic immunity are ineligible for this program.

Section 13.2: Credit Requirements

A credit report and credit score are not required. However, if an Applicant on the loan has a social security number, a credit report must be obtained and reviewed. Applicants that have established credit in the U.S. and do not meet the standard trade line requirement may not have their credit history disregarded. The credit history (i.e., combination of credit report and supplemental credit references), including payment history and any derogatory credit, must comply with the requirements listed in this Underwriting Guideline. Foreign credit does not need to be provided, documented, or verified.

US Credit Score	Requirement
Applicants with a US credit score	<ul style="list-style-type: none"> • Must use their score for pricing and eligibility purposes
Applicants without a US credit score	<ul style="list-style-type: none"> • Will be underwritten based on a 680 FICO score, but no LTV/FICO LLPA shall be utilized, either positive or negative.

Section 13.3: Income

Foreign Full Documentation

Not eligible

Asset Qualifier

A foreign national Applicant may utilize method two of the asset qualifier product to qualify. The Applicant must document 110% of the subject mortgage and 25% of all other debt outstanding in the US. Foreign debts/liabilities do not need to be document or included in the total. As with all other documents, the documents must be provided both in their original form and as a certified translation. A currency conversion must be completed by the underwriter. Any deposits >10% of the face value of the end account must be sourced and documented.

Funds to be utilized for funds to close must be moved into the U.S. prior to closing.

Assets that will be utilized for reserves or asset qualification purposes may remain in a foreign account provided that the institution which is custodian of the funds is on the *Acceptable Institution List* [Exhibit A](#). Otherwise, reserve funds must be moved to an account in the US prior to closing.

Investor Cash Flow

Applicants utilizing the Investor Cash Flow method may be qualified under the same requirements and methodology as standard Applicants. A minimum 1.000 DSCR applies. The interest only payment may NOT be utilized to calculate the DSCR on a loan with an interest only feature.

Section 13.4: Liabilities

Applicants must provide a complete schedule of real estate owned listing property type, property value, rental income (if any), mortgage amount (if any), mortgage payment (if any), and taxes, insurance, and common charges (if any). Any US liabilities must be taken into account. Foreign liabilities, including carrying costs on foreign properties, do not need to be documented or included in the underwriting analysis of the file.

Section 13.5: Assets

Applicants must document transfer of funds that will be used for closing to a US account prior to closing. They must also source funds used for the transaction for the most recent 60 day period. Any foreign asset statements provided must be presented both in original format (home country language and currency) as well as certified translated into English. See [Section 13.8](#)

Assets that will be utilized for reserves or asset qualification purposes may remain in a foreign account provided that the institution which is custodian of the funds is on the *Acceptable Institution List* ([Exhibit A](#)). Otherwise, funds must be moved to an account in the US prior to closing.

The minimum reserve requirement is increased to 12 months for all loan amounts when using the Investor Cash Flow income underwriting method. No additional reserves are required for the Asset Qualifier method, other than those outlined [above](#). Any additional reserve overlays still apply.

Business funds are eligible under standard Applicant requirements. Assets types and questions not directly addressed here should be underwritten in accordance with the [Assets](#) section of this guide.

Section 13.6: Know Your Customer

All foreign Applicants will undergo a Know Your Customer (KYC) check to be completed by Luxury Mortgage. Any alerts that arise must be acceptably addressed before a final approval may be granted. If an Applicant cannot clear the KYC check, they will be ineligible for financing.

Section 13.7: Automated Clearing House (ACH) Requirement

Any loan made to a Foreign National must have an ACH agreement signed at the closing table. The ACH must be set to draw from a US bank account. The Applicant shall provide proof that a US bank account is opened in their name (or in the name of the entity which owns the property, if applicable) and that the account is funded with the first month's payment.

Section 13.8: Translation Requirements

Any foreign documentation provided must be provided in its original form. The documentation must also be translated by a certified translator. Luxury Mortgage will vet the Applicant selected translator for acceptability.

Section 13.9 Escrows

Escrows/impounds for taxes and all insurance coverage is mandatory

Exhibit A: Acceptable Bank List for Foreign National Asset (Globally Systemically Important Financial Institutions¹)

Agricultural Bank of China*
Banco Bradesco
Banco do Brasil
Bank of America*
Bank of China*
Bank of Montreal
Bank of New York Mellon*
Barclays*
BBVA*
BNP Paribas*
BTG Pactual
Caixa Econômica Federal (CEF)
CIBC (Canadian Imperial Bank of Commerce)
Citigroup*
Credit Suisse*
Deutsche Bank*
First International Bank of Israel
Goldman Sachs*
Groupe BPCE
Group Crédit Agricole
HSBC*
Industrial and Commercial Bank of China Limited
ING Bank*
Itau Unibanco
JP Morgan Chase*
Mitsubishi UFJ FG
Mizuho FG
Morgan Stanley*
Nordea
Royal Bank of Scotland
Royal Bank of Canada (RBC Bank)
Santander*
Société Générale
Standard Chartered*
State Street*
Sumitomo Mitsui FG
TD Bank
UBS*
Unicredit Group
XP Investimentos
Wells Fargo*

(* denotes branch located in the U.S.)

¹ <http://www.fsb.org/wp-content/uploads/P211117-1.pdf>

Exhibit B: LTV/FICO/Loan Amount Matrices (All Products, Standard Applicants)

PURCHASE/RATE & TERM REFINANCE				
Primary Residence				
FICO	LTV*	CLTV*	Loan Amount	DTI**
720	70%	70%	\$ 4,000,000	50
	75%	75%	\$ 3,500,000	50
	80%	80%	\$ 3,000,000	50
	90%	90%	\$ 1,500,000	50
680	60%	60%	\$ 4,000,000	50
	65%	65%	\$ 3,500,000	50
	75%	75%	\$ 3,000,000	50
	85%	85%	\$ 2,000,000	50
660	70%	70%	\$ 3,000,000	50
	80%	80%	\$ 2,000,000	50
	90%	90%	\$ 1,000,000	50
640	70%	70%	\$ 2,000,000	50
620	65%	65%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier: DTI=NA

*Rate and Term: Max 85 LTV

**DTI may be increased to 55 with specified compensating factors-see [guideline section](#)

See [Geographic Eligibility](#) for states/counties with LTV limitations

CASH-OUT REFINANCE				
Primary Residence				
FICO	LTV	CLTV	Loan Amount	DTI
720	70%	70%	\$ 2,500,000	50
	75%	75%	\$ 2,000,000	50
680	65%	65%	\$ 2,500,000	50
	70%	70%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50
660	65%	65%	\$ 2,000,000	50
	70%	70%	\$ 1,000,000	50
620	60%	60%	\$ 2,000,000	50
	65%	65%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier: DTI=NA

Max CO Proceeds: No limit up to 75 LTV, \$500k above 75 LTV

See [Geographic Eligibility](#) for states/counties with LTV limitations

PURCHASE/RATE & TERM REFINANCE				
Second Home				
FICO	LTV	CLTV	Loan Amount	DTI**
720	65%	65%	\$ 4,000,000	50
	70%	70%	\$ 3,500,000	50
	75%	75%	\$ 3,000,000	50
680	50%	50%	\$ 4,000,000	50
	60%	60%	\$ 3,500,000	50
	70%	70%	\$ 3,000,000	50
	80%	80%	\$ 2,000,000	50
660	65%	65%	\$ 3,000,000	50
	70%	70%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50
620	60%	60%	\$ 2,000,000	50
	65%	65%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier: DTI=NA

**DTI may be increased to 55 with specified compensating factors-see [guideline section](#) See [Geographic Eligibility](#) for states/counties with LTV limitation

CASH-OUT REFINANCE				
Second Home				
FICO	LTV	CLTV	Loan Amount	DTI
720	70%	70%	\$ 2,500,000	50
	75%	75%	\$ 2,000,000	50
680	65%	65%	\$ 2,500,000	50
	70%	70%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50
660	65%	65%	\$ 2,000,000	50
	70%	70%	\$ 1,000,000	50
620	60%	60%	\$ 2,000,000	50
	65%	65%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier: DTI=NA

Max CO Proceeds: No limit up to 75 LTV, \$500k above 75 LTV

See [Geographic Eligibility](#) for states/counties with LTV limitations

PURCHASE/RATE & TERM REFINANCE				
Investment Property				
FICO	LTV	CLTV	Loan Amount	DTI**
720	65%	65%	\$ 4,000,000	50
	70%	70%	\$ 3,500,000	50
	75%	75%	\$ 3,000,000	50
680	50%	50%	\$ 4,000,000	50
	60%	60%	\$ 3,500,000	50
	70%	70%	\$ 3,000,000	50
	80%	80%	\$ 2,000,000	50
660	65%	65%	\$ 3,000,000	50
	70%	70%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50
620	60%	60%	\$ 2,000,000	50
	65%	65%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier/Investor Cash Flow: DTI=NA

**DTI may be increased to 55 with specified compensating factors-see [guideline section](#)

See [Geographic Eligibility](#) for states/counties with LTV limitations

CASH-OUT REFINANCE				
Investment Property				
FICO	LTV	CLTV	Loan Amount	DTI
720	70%	70%	\$ 2,500,000	50
	75%	75%	\$ 2,000,000	50
680	65%	65%	\$ 2,500,000	50
	70%	70%	\$ 2,000,000	50
	75%	75%	\$ 1,000,000	50
660	65%	65%	\$ 2,000,000	50
	70%	70%	\$ 1,000,000	50
620	60%	60%	\$ 2,000,000	50
	65%	65%	\$ 1,000,000	50

Notes:

LTV=CLTV (all occupancies), Asset Qualifier/Investor Cash Flow: DTI=NA

Max CO Proceeds: No limit up to 75 LTV, \$500k above 75 LTV

See [Geographic Eligibility](#) for states/counties with LTV limitations

Exhibit C: LTV/FICO/Loan Amount Matrices (Foreign National Applicants)

PURCHASE/RATE & TERM REFINANCE			
Foreign National			
FICO	LTV	CLV	Loan Amount
680	70%	70%	\$ 3,000,000
	75%*	75%*	\$ 2,000,000
660	70%	70%	\$ 2,000,000
	75%*	75%*	\$ 1,000,000
620	60%	60%	\$ 2,000,000
	65%	65%	\$ 1,000,000

*>70 LTV limited to purchase transactions only
 If Applicant has no US FICO, use 680 for guideline purposes.

CASH-OUT REFINANCE			
Foreign National			
FICO	LTV	CLV	Loan Amount
680	65%	65%	\$ 2,500,000
	70%	70%	\$ 2,000,000
660	65%	65%	\$ 2,000,000
	70%	70%	\$ 1,000,000
620	60%	60%	\$ 2,000,000
	65%	65%	\$ 1,000,000

If Applicant has no US FICO, use 680 for guideline purposes
 Max CO Proceeds: No Limit

Exhibit D: Age of Documentation

Document Type	Allowable Age
Paystub	Maximum 120 Days prior to Note Date
Written VOE	Maximum 120 Days prior to Note Date
Verbal VOE	Maximum 10 Days prior to the Note date
Profit and Loss Statement/Balance Sheet	Maximum 120 Days prior to Note Date
CPA Letter	Maximum 120 Days prior to Note Date
Appraisal	Maximum 120 Days prior to Note Date
Title Commitment	Maximum 60 Days prior to Note Date
Credit Report	Maximum 120 Days prior to Note Date
Bank Statements (including Business)	Maximum 120 Days prior to Note Date
Reverification of CPA Letter	Good for 30 days from effective date
Asset statements used for asset utilization	Maximum 120 Days prior to Note Date
Bank Statements for Income	Maximum 120 Days prior to Note Date
Asset Statement for Asset Qualifier	Maximum 120 Days prior to Note Date
Proof of receipt of rents (non ICF)	Maximum 60 Days prior to Note Date
Proof of receipt of rents (ICF)	Maximum 60 Days prior to Note Date
Credit documents (rent checks or mortgage statements)	Maximum 120 Days prior to Note Date

*For any Documentation not listed allowable age will be 120 days prior to note date unless otherwise specified on documentation (i.e., If document has an expiration)