JMAC LENDING

Laguna Jumbo Matrix

Revision: May 29, 2018 (Product Information Center, 949-390-2670, www.jmaclending.com

Primary - Purchase and Refinance Rate & Term Only LG-NCF30, LG-NCF15, LG-NCF5/1, LG-NCF7/1, LG-NCF10/1										
		SFR Detached / Attached, PUD, Condo with Fico Score >= 720		Attached Condo with Loan Score < 720		2-Unit		3- to 4 - Unit		Minimum Fico Score
Combined Loan Amount	**Market Class**	**Max LTV**	**Max CLTV**	**Max LTV**	**Max CLTV**	**Max LTV**	**Max CLTV**	**Max LTV**	**Max CLTV**	
$453,101 to $750,000	1	75	85	n/a	n/a	75	75	70	70	**700 – Fixed Rate** **720 - ARMs**
		80	80	75	75					
	2	80	80	75	75	75	75	70	70	
	3	80	80	75	75	75	75	70	70	
	4	75	75	70	70	70	70	65	65	
$750,001 - $1,000,000	1	80	80	75	75	75	75	70	70	
	2	80	80	75	75	75	75	70	70	
	3	80	80	75	75	75	75	70	70	
	4	75	75	70	70	70	70	65	65	
$1,000,001 - $1,500,000	1	80	80	75	75	75	75	70	70	
	2	80	80	75	75	75	75	70	70	
	3	80	80	75	75	75	75	70	70	
	4	75	75	70	70	70	70	65	65	
$1,500,001 - $2,000,000	Not listed	80	80	75	75	75	75	70	70	
	2	80	80	75	75	75	75	70	70	
	3	80	80	75	75	75	75	70	70	
	4	75	75	70	70	70	70	65	65	
$2,000,0001-$2,500,000	1	75	75	70	70					
	2	75	75	70	70					
	3	75	75	70	70					
	4	70	70	65	65					
$2,500,001-$3,000,000	1	70	70	65	65					
	2	70	70	65	65					
	3	70	70	65	65					
	4	65	65	60	60					

1. Combined loan amount (total of all loans/lines against the subject property) applies when secondary financing exists.
2. Non-Conforming first Loan Amounts must be at least $**453,101**.

Laguna Jumbo Matrix

	Primary Residence – PURCHASE ONLY OVER 80% LTV SFR Detached/Attached, PUD, Condo LG-NCF30, LG-NCF15, LG-NCF7/1, LG-NCF10/1				
MSA MHP[3]	Loan Amount[1]	Market Class	Max LTV[2]	DTI Maximum	Minimum Fico Score
<= $300,000	<= $750,000	1	85%	Fixed Rate 30%/35% ARM 30%/32%	740
		2	85%		
	>$750,000 - $1,000,000	1	85%		
		2	Not Allowed		
>$300,000-$400,000	<= $1,000,000	1	85%		
		2	85%		
	>$1,000,000-$1,250,000	1	85%		
		2	Not Allowed		
>$400,000	<= $1,500,000	1	85%		
		2	Not Allowed		

1. Non-Conforming first Loan Amounts must be at least $453,101.
2. No Mortgage Insurance
3. Refer to Exhibit Addendum MSA (Metropolitan Statistical Area Median Home Price), separate from matrix to determine the maximum loan amount allowed for the county.

12 months PITI(A) for reserve

Additional Restrictions:

Purchase transaction only; Excludes 5/1 ARM program; not allowed to any borrower with open collection accounts; **Gift funds and gift of equity transactions are not allowed**; maximum number of financed is limited to 2 including the subject property; non-occupant co-borrower not allowed; Subordinate financing is not allowed

All of the following are ineligible for property types:

- Condos (attached or detached) located in Miami-Date County Florida
- Properties with more than 10 acres
- Properties experiencing interrupted or unstable utility service hazards (such as severely curtailed water service, water contamination, or extended power shortages) as identified by the appraiser

<table>
<tr><th colspan="6">Primary Residence – Cash Out Refinance
LG-NCF30, LG-NCF15, LG-NCF5/1, LG-NCF7/1, LG-NCF10/1</th></tr>
<tr><th></th><th></th><th colspan="2">SFR Detached/Attached, PUD, Condo</th><th></th><th rowspan="2">Minimum Fico Score</th></tr>
<tr><th>Loan Amount</th><th>Market Class</th><th>Max LTV</th><th>Max CLTV</th><th></th></tr>
<tr><td rowspan="4">$453,101 - $750,000</td><td>1</td><td>70</td><td>70</td><td rowspan="12">Max Cash-Out

Greater than 65%
MAX $400,000

Less or Equal to 65%
MAX $500,000

MAX DTI 40%</td><td rowspan="12">720</td></tr>
<tr><td>2</td><td>70</td><td>70</td></tr>
<tr><td>3</td><td>70</td><td>70</td></tr>
<tr><td>4</td><td>65</td><td>65</td></tr>
<tr><td rowspan="4">$750,001 - $1,500,000</td><td>1</td><td>70</td><td>70</td></tr>
<tr><td>2</td><td>70</td><td>70</td></tr>
<tr><td>3</td><td>70</td><td>70</td></tr>
<tr><td>4</td><td>65</td><td>66</td></tr>
<tr><td rowspan="4">$1,500,001 - $2,000,000</td><td>1</td><td>65</td><td>65</td></tr>
<tr><td>2</td><td>65</td><td>65</td></tr>
<tr><td>3</td><td>65</td><td>65</td></tr>
<tr><td>4</td><td>60</td><td>60</td></tr>
<tr><td colspan="6">4. Combined loan amount (total of all loans/lines against the subject property) applies when secondary financing exists.
5. Non-Conforming first Loan Amounts must be at least $453,101.</td></tr>
</table>

<table>
<tr><th colspan="4">Primary Residence
Requirements</th></tr>
<tr><th>Loan Amount / Adjusted Combined Loan Amount[1]</th><th>SFR, Detached/Attached, PUD, Condo</th><th>2-unit</th><th>3 to 4 unit</th></tr>
<tr><td>Up to $1,000,000</td><td>12 months PITI</td><td>12 months PITI</td><td rowspan="2">36 months PITI</td></tr>
<tr><td>$1,000,001 - $2,000,000</td><td>12 months PITI</td><td>18 months PITI</td></tr>
<tr><td>$2,000,002 - $4,000,000</td><td>24 months PITI</td><td></td><td></td></tr>
<tr><td colspan="4">1. Adjusted combined loan amount total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e., when subordinate financing is a line of credit, the outstanding balance is used).
2. When the aggregates of the UPB of ALL properties financed is $3MM or more, 36 months PITI of reserves are required or LTV restricted to 50%</td></tr>
</table>

Laguna Jumbo Matrix

Second Home – Purchase and Rate / Term Refinance (LG-NCF30, LG-NCF15, LG-NCF5/1, LG-NCF7/1, LG-NCF10/1)						
		SFR Detached/Attached, PUD, Detached Condo, Attached Condo with Loan Score >= 720		Attached Condo with loan score < 720		Minimum Fico Score
Loan Amount	**Market Class**	**Max LTV**	**Max CLTV**	**Max LTV**	**Max CLTV**	
$453,101 to $650,000	1	80	80	75	75	700 – Fixed Rate 720 - ARMs
	2	80	80	75	75	
	3	80	80	75	75	
	4	75	75	70	70	
$650,0001 - $1,000,000	1	75	75	70	70	
	2	75	75	70	70	
	3	75	75	70	70	
	4	70	70	65	65	
$1,000,001 - $1,500,000	1	75	75	70	70	
	2	75	75	70	70	
	3	75	75	70	70	
	4	70	70	65	65	
$1,500,001 - $2,000,000	1	70	70	65	65	
	2	70	70	65	65	
	3	70	70	65	65	
	4	65	65	60	60	

1. Combined loan amount (total of all loans/lines against the subject property) applies when secondary financing exists.
2. Non-Conforming first Loan Amounts must be at least $**453,101**.
3. Max DTI 40% regardless of products either Fixed or ARMs.

Second Home – Cash-Out Refinance (LG-NCF30, LG-NCF15, LG-NCF5/1, LG-NCF7/1, LG-NCF10/1)						
		SFR Detached/Attached, PUD, Detached Condo				Minimum Fico Score
Loan Amount	**Market Class**	**Max LTV**	**Max CLTV**			
$453,101 to $650,000	1	70	70			720
	2	70	70			
	3	70	70			
	4	65	65			
$650,001- $1,500,000	1	65	65			
	2	65	65			
	3	65	65			
	4	60	60			
$1,500,001 - $2,000,000	1	60	60			
	2	60	60			
	3	60	60			
	4	55	55			

MAX DTI 40% regardless of products either Fixed or ARMS.

Second Home Cash – Out Limits		
LTV/CLTV	**Maximum Cash Out**	**Max DTI**
All	$350,000	40%

Second Home Reserve Requirements	
Subject Property Combined Loan Amount	**Minimum Required Reserves**
Up to $1,000,000	18 mos. PITI
$1,000,001 to $2,000,000	24 mos. PITI
$2,000,001 to $4,000,000	36 mos. PITI

Adjusted combined loan amount total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e., when subordinate financing is a line of credit, the outstanding balance is used).

When the aggregates of the UPB of ALL properties financed is $3MM or more, 36 months PITI of reserves are required or LTV restricted to 50%

Investment Property – Purchase and Rate / Term Refinance and Cash-Out Refinance LG-NCF30, LG-NCF15, LG-NCF7/1, LG-NCF10/1						
		SFR Detached/Attached, PUD				Minimum Fico Score
Loan Amount	**Market Class**	**Max LTV**	**Max CLTV**			
$453,101 to $2,000,000[1]	1-2	60	60	MAX Cash-Out $400,000		740

1. Loan amount / Adjusted combined loan amount up to $1,000,000: **Require 24 months PITI Reserve**
2. Loan amount / Adjusted combined loan amount from $1,000,0001 to $2,000,000: **Require 30 months PITI Reserve**
3. Non-Conforming first Loan Amounts must be at least $**453,101**.
4. When the aggregates of the UPB of ALL properties financed is $3MM or more, 36 months PITI of reserves are required or LTV restricted to 50%

Investment properties are allowed with the following restrictions:

5. Maximum top and bottom ratio 36/38%.
6. Two years property management experience required if rental income from subject is used to qualify
7. Borrowers may own no more than 4 total financed properties
8. 1 Unit property only

Early Paid Off Policy (EPO)	EPO timeline is 6 months (180 days) from closing date of the loan.
Products	• ARM (5/1, 7/1 and 10/1) , FIXED (15, and 30) • For LTV > 80%, only allowed on purchase transaction. The 5/1 ARM program is not available.
ARM Information	<u>Index</u>: 1 yr Libor <u>Caps</u>: 2% initial adjust. 2% per adjust. , thereafter, 5% Life <u>Floor</u>: Margin <u>Margin</u>: 2.25%

Acceptable Property Types	Maximum 20 Acres
	
	<u>Acceptable Property Types</u>
	• Single family detached or attached dwellings
	• Condominiums / PUDS
	• Factory built except manufactured (mobile) home
	
	Permitted ADUs - must demonstrate that the improvements are typical for the market with at least one comparable with a similar accessory unit
	Unpermitted/Illegal ADU's-
	  • must demonstrate that the improvements are typical for the market with at least **two** comparable with a similar accessory unit
	  • Appraisal report is completed based on the property's current use
	  • Hazard Insurance provider confirms the existence of the illegal unit will not jeopardize any future hazard insurance claims
	
	<u>Unacceptable Property Types</u>
	Unacceptable property types include, but are not limited to:
	• Timeshare projects
	• Unimproved land
	• Mobile home type manufactured housing
	• Condotels/Resort Condominiums
	• Hotel Condominium
	• Log, earth or dome homes
	• Hobby farms
	• Property Flipped Transactions
	• Mixed-used live/work
	• ADU (accessory unit) on a 2-4 Unit

Eligible Borrowers	US Citizens; Permanent Resident Aliens; Non-Permanent Resident Aliens allowed with required VISAs); Revocable Trust; Must have valid Social Security Number; Maximum of 4 borrowers per loan application are allowed Non-Permanent Required VISAs: A Series (A-1, A-2, A-3), E-1, E-2, E-3, G Series (G-1, G-2, G-3, G-4, G-5), H-1 (includes H-1B and H-1C), H-4, L-1, L-2, O-1A, O-1B, O-2, TN NAFTA for Canadian and Mexican Citizens, TC, NAFTA for Canadian citizens for professional or business purpose. If green card or non-permanent status will expire within 5 months of funding may be considered as long as the borrower provides evidence of renewal or extension. **NOTE: Maximum 4 borrowers per transaction**.

Minimum Loan Amount	**$453,101**
Property and Appraisal Requirements	The number of appraisal products is determined by the total loan amount, the combined loan to value and the median home price multiplier (median home price can be found on the Median Home Price Sheet).

<table>
<tr><th>Total Loan Amt</th><th>CLTV</th><th><= 4 times
Median Home Price</th><th>< 4 <= 10 times
Median Home Price</th><th>>10 times
Median Home Price</th></tr>
<tr><td>Less than or equal to $1Million</td><td>All</td><td>One Full Appraisal</td><td>One Full Appraisal</td><td>One Full Appraisal</td></tr>
<tr><td rowspan="3">Greater than $1Million; less than or equal to $1,500,000</td><td><= 70%</td><td>One Full Appraisal</td><td rowspan="6">One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Desk Review</td><td>One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Desk Review</td></tr>
<tr><td>>70%
<=80%</td><td rowspan="5">One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Desk Review</td><td>standard guidelines, exceptions can be considered on a case-by-case basis</td></tr>
<tr><td>>80%</td><td>Ineligible</td></tr>
<tr><td rowspan="3">Greater than $1,500,000 less than or equal to $2,000,000</td><td><=70%</td><td>One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Interior Field Review</td></tr>
<tr><td>>70%
<=80%</td><td>Ineligible under standard guidelines, exceptions can be considered on a case-by-case basis</td></tr>
<tr><td>>80%</td><td>Ineligible</td></tr>
<tr><td>Greater than $2,000,000 up to $3,000,000</td><td>All</td><td>One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Interior Field Review</td><td>One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Interior Field Review</td><td>One full appraisal completed by a certified appraiser and a Residential Valuation Services (RVS) Interior Field Review</td></tr>
</table>

	Additional Requirements: • **Any field review that is condition for will be at the cost of the loan originator or borrower. The actual order will be place by the investor.** • **For Correspondent Lenders , full appraisals must be ordered through one of the following AMCs (Assurant, Clear Capital, Corelogic RELS Valuation, PVCMURCOR Real Estate Services, Solidifi, or SERVICELINK). The investor will order both desk review and field review. The cost for field review will be collected from loan originator.**
Non-Delegation	On non-delegated loans, the file cannot be pre-locked until loan is fully approved. • 2-4 units • Condos *Investor are required to review all condo project* • Investment properties • Cash-Out transactions on second home • Business use of funds • DTI > 40% excludes Purchase and Refinance R&T • Loan amount > $1.5Million • Less than 12 months' mortgage or rental history (rent free) • Non-occupant co-borrower • Restricted Stock use for Income • Capital Gain • Any Exceptions

Seasoning Rate/Term and Cash Out	• Rate and Term: 6 months seasoning from recording to application date to use current market value.
	• Cash out: 6 months seasoning from recording to application date to use current market value.
	• If seasoning is less than 6 months value is based on the lower of the purchase price or current market value
	• The following will be considered refinance Rate and Term:
	    o Payoff a Principal balance of the existing lien.
	    o Payoff a purchase second lien with no draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
	    o Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.

Reserves	**Liquid assets verified to meet the reserve (post-closing liquidity) requirements may be in the form of:** • Cash equivalents (checking, savings, or money market accounts) • 100% of the vested value of publicly traded stocks, mutual funds, and government securities may be used. • Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)

	• Retirement funds:
	  ○ Gross retirement funds, less required deductions, may be used to meet 100% of the minimum reserve requirement for borrowers with penalty-free access to their account.
	  ○ For borrowers without penalty-free access, gross retirement funds, less required deductions, may be used to meet 50% of the minimum reserve requirement. (Note: Allowed up to 60% of value less any outstanding loan balance).
	• 100% of Roth IRA (less outstanding loans)
	• Tax advantage college saving plans (529 college saving plans) funds may be used to meet the retirement portion of the reserve requirement.
	  ○ The borrower must be the custodian on the account.
	  ○ The balance must be reduced by 10% to account for tax consequences for drawing the funds for noneducational purposes.
	• Equity proceeds from the sale of a residence.
	• Stock Option grants:
	  ○ Must be fully vested and not restricted (either by the company or IRS, such as being subject to Rule 144)
	  ○ Must be from a publicly traded company listed on the NYSE, AMEX or NASDAQ
	  ○ May be part of a qualified or non-qualified plan
	  ○ Cannot be used as qualifying income.
	
	  To calculate the value:
	    ▪ Subtract the strike price/optioned price (the price at which the employee was issued the stock) from the current stock price and multiply by the number of shares.
	    ▪ Discount the value by 40% (to account for taxes).
	
	<u>Asset Documentation:</u>
	• Provide all pages of the most recent and consecutive two months asset statements dated within 45 days of the 1003 and source large deposits.
	
	<u>Use of Business *Funds (Requires Investor Approval)*</u>
	
	When a borrower has sufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves (post-liquidity) if both of the following conditions are met:
	
	• Provide CPA letter confirming that funds being used from business account will not have an adverse effect on the business cash flow.
	• Business average annual cash flow is greater than the amount to be withdrawn/reserves.
	• Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three –year history of a balance greater than or equal to the amount being considered for reserves (post-closing liquidity) or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

	Full Analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future. The following questions need to be considered: • What is the pattern of company cash flows? Do we have declining gross or net income? • Do we have concerns about the type of business? Is the business experiencing a downturn? Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transactions. **<u>The following assets are ineligible for purposes of meeting the minimum reserve (- liquidity) requirement:</u>** • Gift funds • Borrowed funds • Stock in a closely held corporation • Proceeds from the sale of assets other than the sale of a residence. • Proceeds from a cash-out refinance transaction
Qualifying Ratios	• Owner Occupied max DTI 43% (FIXED) and 40% (ARM) • Second home max DTI at 40% • Investment max DTI at 36/38% • Cash-out Transaction max DTI at 40% Adjustable Rate Mortgage (ARM) Qualifying Calculation: ***<u>Fully Amortized</u>*** 5/1: Qualify at the greater of the Note Rate Plus 2% or the fully indexed rate 7/1 and 10/1: Qualify at the higher Fully Indexed rate (index plus margin) **or** Initial Note Rate, not to exceed the start rate plus lifetime cap.
Credit Scores, Credit and Disputes	• Minimum Fico – refer to the matrix above • Rescoring and Credit Repair ○ JMAC prohibits the use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness. There may be instances where the borrower's credit score is valid but insufficient credit exists. In addition, the credit risk of the entire borrower profile must be evaluated to determine if the credit history supports the borrower's ability and willingness to repay the loan

	<u>Insufficient credit is defined as any of the following:</u>
	• Fewer than three (3) tradelines.
	• No tradeline with activity in the most recent 12-months
	• No tradeline with at least a 24-month history
	
	<u>Example of an acceptable credit depth:</u>
	• Each borrower that is on the loan must have at least:
	    ○ 3 active trade lines
	        ▪ One active with at least 24 month's seasoning and credit line should be at least $5000.
	        ▪ Two active with at least 12 month's seasoning
	    ○ Each borrower should have at least 2 credit scores.
	
	• Mortgage late: 0x30 last 12 months, no rolling
	• Chapter 7 or 13 Bankruptcies: 7 years seasoning from discharge or dismissal of bankruptcy filings
	• Short Sale, Foreclosure, Deed in Lieu, Pre-foreclosure: Requires 7 years seasoning from date of completion
	• Revolving credit – no more than 2x30 in last 12 months
	• Installment Credit – no more than 1x30 in last 12 months
	• Individual unpaid charge offs less than $500 does not require proof of payoff
	
	• Disputed Accounts – Disputed accounts are reviewed to determine current balance and derogatory information (a 30-day or more delinquency) within 2 years prior to the credit report date:
	
	    • Zero balance and no derogatory information – no action required
	    • Zero balance and derogatory information - remove and pull new credit report
	    • A positive balance and no derogatory information – remove and pull new credit report
	    • A positive balance and derogatory information – remove and pull new credit report
	
	A credit supplement is not allowed to document disputed accounts.

Long Term Debt	Accounts may not be "paid down" to less than 10 months to allow the borrower to qualify. Installment or mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is NOT allowed.

Installment Accounts	Installment accounts are accounts that fully amortize or have a balloon payment at a predetermined date. The account balance cannot be increased during the term of the loan. Payments are made on a regular basis and may be fixed or adjustable.
	
	Whenever the installment debt's payment amount is not provided on the credit report then documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:
	    • Direct verification from the creditor.
	    • Copy of the installment loan agreement.

	Installment debts with less than 10 monthly payments remaining may be excluded from the qualifying ratios, but must be listed on the application. It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid in full at closing in order to exclude the debt from the borrower's qualifying ratios.
Lease Payments	The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining

Deferred Payments, Balloon Payments and Single Payments Notes (including Interest Only Payment Notes)	Some debts may have deferred payments or are in a period of forbearance. These debts must be included in the qualifying ratios if scheduled to begin or come due within 12 months of the mortgage Loan closing. Examples of installment debts with deferred payments include:
	• Debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer.
	
	Some deferred payments must be included in the qualifying ratios even if deferred 12 months or more. Examples include:
	• Deferred payments must be included if the amount of the debt or payment affects the borrower's ability to pay the mortgage after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing, (such a borrower with high ratios / no or low cash assets after closing with a sizable debt event that is just outside of the 12 month window for inclusion in ratios).
	• Balloon and single payment Notes must be considered in the underwriting analysis:
	  ○ If sufficient liquid assets (excluding assets used to meet reserve (post-closing liquidity)/down payment/closing costs requirements) can be verified to pay off Note, the Note does not need to be included in the ratios.
	  ○ If sufficient liquid assets cannot be verified, verify the term of the Note, and include a payment in the ratios based on amortization over remaining term of the Note.
	
	When the credit report does not include a payment on the debt, documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:
	• Direct verification from the creditor.
	• Copy of the installment loan agreement.
	• Student loan certification from the financial institution holding the loan.

Student Loan Payments	**For student loans that are deferred, in forbearance, or not reporting a payment on the credit report:** • Calculate a payment using 1.15% of the higher of the original high credit limit or current balance. Documentation of the actual payment may be requested in lieu of 1.15% calculation. Documentation options include, but are not limited to, the following: ▪ Direct Verification from the Creditor ▪ A copy of the Installment Loan Agreement **For student loans that are reporting a payment on the credit report:** • Compare the reported payment to 1.15% of the current balance and use the higher of the two payments.
Retirement Loans	The payment will be considered an installment payment. (e.g. Loan against 401K)
Tax Liens	Any tax liens need to be paid off at closing.
Income Information	Salaried Borrowers: • Verification of employment or paystubs within 30 days, dated within 45 days of 1003 and covering one month, and W-2's for the past two years. • Bonus Income: Provide 2 years history of receipt and 2 years tax returns • Commission Income: Provide 2 years history and 2 years tax returns. • 2 years personal tax returns co Borrowers: • W2's paystubs and 1099's. • If business returns are more than 4 months old, provide YTD Profit & Loss Statement and Balance Sheet for each business where borrower owns 25% or more of the company (P&L and Balance Sheet must be signed by third party such as CPA, bookkeeper, Controller or tax preparer) • Most recent two years personal tax returns • Most recent two years K-1's for all business. • Most recent 2 years business tax returns for each business where the borrower owns 25% or more of the company

	INCOME ANALYSIS – RESTRICTED STOCK
	
	Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options. Restricted stock must be vested as well as received on a regular, recurring basis.
	
	GSU (Google) Stock is an acceptable RSU stock.
	
	The following documentation is required:
	• Issuance agreement or equivalent (part of the benefits package), and
	• Schedule of distribution of units (shares), and
	• Vesting schedule, and
	• Evidence that stock is publicly traded, and
	• Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)
	
	Calculation of income:
	• To determine the restricted stock price use the lower of:
	o current stock price, or
	o the two year stock price average.
	• Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested each year. If stock income is declining, refer to **DECLINING INCOME POLICY (SELF-EMPLOYMENT, BONUS, OVERTIME, COMMISSION, RESTRICTED STOCK**.
	• Future vesting must support qualifying income.
	
	**** Borrower must have 2 years landlord history to use rental income including departing rental income****
	
	Rental Income (excludes **departure residence**):
	• Rental income must be documented if used to qualify:
	  o If owned for at least 12 months provide the borrower's prior year completed and filed Federal Individual Income Tax Return including Schedule E.
	  o If owned less than 12 months and is not reflected on borrower's most recent filed Federal Individual Tax Return provide the following:
	    ▪ Copies of the present signed lease(s) may be used only if the borrower has a two-year history of property management experience as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, and
	    ▪ Three months cancelled checks or bank statements verifying receipt of rental income.

	Other Income:
	• Finite Income: **Minimum of 5 years of continuance** is required for income types with a finite period of receipt.
	  ○ Alimony or separate maintenance payments
	    ▪ When Alimony is being paid, it is to be deducted from the income and not be treated as a liability
	  ○ Child support
	  ○ Note Income
	  ○ Trust Income
	  ○ IRA/401K/Keogh Income (a minimum of 2 months received prior to application date with distribution agreement)
	  ○ Certain types of retirement income, such as annuities (excluding social security income)
	  ○ Social Security survivor benefits for children
	  ○ Foreign income
	  ○ Certain types of benefit income, such as worker's compensation
	  ○ Public assistance income
	  ○ Royalty income
	
	NOTE: The continuance requirement may be reduced to 3 years if the income source contributes to less than 25% of the total qualifying income.
	
	Effective income for borrowers planning to retire during the first three-year period of the Loan must include the applicable amount of:
	• Documented retirement benefits
	• Social Security payments
	• Other payments expected to be received in retirement
	
	The borrower's continued ability to repay the Loan must be considered when the income source expires or the distributions will deplete the asset prior to the maturity of the Loan, including:
	• Replacement income such as Social Security income, that will begin before the income source expires
	• Strong equity position in other real estate or assets that may be liquidated in the future to provide an additional income stream
	
	Income Not Allowed:
	  ○ Automobile allowance may not be used for qualifying and may not be used to offset a car payment

Departure Residence	• Borrower must have 2 years' history of landlord showing 2 years filed tax returns to use rental income and/or departing rental income.
	• The departing property must have at least 30% equity position, 75% of rental income may be used to offset the mortgage PITI payment in qualifying when:
	  ○ Reserve requirements are the greater of six months PITI for both properties or the standard post-close liquidity, and
	  ○ Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a two-year history of managing investment properties, as evidenced by the most current 2 years filed and signed Federal IRS 1040 tax returns, and
	  ○ Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.

	• If the rental income will not be used to offset the mortgage payment to qualify, the following reserve requirements must be met:
	  ○ The greater of six months PITI for both properties or the standard post-closing/reserve requirements.
	• If 30% equity in the departure property cannot be documented, or the borrower does not have a two-year history of managing investment properties as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, rental income may not be used to offset the mortgage PITI payment in qualifying and:
	  ○ Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; and
	  ○ Reserve requirements are the greater of six months PITI for both properties or the standard post-closing/reserve requirements.
	• When the departure residence will not be sold at the time of closing and there is a negative position, the following may be required to reduce the overall risk:
	  ○ Additional reserves to cover the negative equity of the departure residence OR
	  ○ Pay down the lien on the departure residence to eliminate the negative security
	• Departing property requires a full appraisal with 1007.
	NOTE: For Correspondent Lenders , departing property must be ordered through one of the following AMCs (Assurant, Clear Capital, Corelogic RELS Valuation, PVCMURCOR Real Estate Services, Solidifi, or SERVICELINK)
	
	The two-year rental management experience and rental income history requirement may be waived for rental income from the subject property only, if all of the following apply:
	• Purchase transaction
	• Two-Unit Property
	• Primary Residence
	• LTV less than or equal to 75%
	• Loan Score greater than or equal to 740
	• No gift funds
	
	When waiving the property management experience, use the Operating Income Statement (216) to support rental income (a current lease is not required). A 25% vacancy/maintenance expense factor must be deducted from the gross rental income.

Rent Back	Assignment of rent payments or leaseback: If the purchase contract or HUD-1 provide for rental payments or leasebacks of more than 60 day, the property must be considered investment.
Housing Payment History	• A minimum 24-month history of the borrower's mortgage and/or rental payment history must be provided. ○ If the landlord verification is from a private party, only 12 months cancelled checks is required. • Borrower living rent free will be considered as an exception. (non-delegated loan)

Condo Requirements	• Investor HOA Cert form required
	  ○ 2-4 unit projects required Form 24
	  ○ Greater than 4 units required Form 25
	  ○ 70 percent of the units sold must be sold to owner-occupied for use as primary residence or second home
	• Evidence of HOA insurance policy covering hazard, liability, fidelity and flood (if applicable)
	• CC&R's and By-laws

	• Homeowners Association Budget • Authorization to accept review charges. Fees (ranges from $250-$1000) if applicable. Charges to be paid upfront by broker / borrower. • Investor to review and sign off condo conditions • Additional documentation may be required depending on the status of the condominium and review type required.
Seller Contributions	Seller contributions limited: ○ 6% for Owner Occupied if CLTV <= 80% ○ 3% for Owner Occupied if CLTV > 80% ○ 6% for Second Home ○ 2% for Investment
Gift	• 100% gift allowed for Owner Occupied Transactions Only; max LTV 80% • US funds can be wire directly to escrow. • Gift funds from foreign accounts require 6 months' donor's ability. Any large deposits will need to be source and paper trail.
Max.# of Financed Properties	• Owner Occupied – up to 4 financed properties • If aggregate financing for all properties owned by borrower exceeds $3Million then one of the following is required 1) 36 months PITI or 2) maximum 50% LTV/CLTV
Income Verification	4506T required on all loans
Restrictions	• Texas Cash Out not allowed. • Temporary Buydown / Leasehold: Not Allowed • If the property is located in a Market Classification of 3 or 4, or is a condominium (attached/detached) located in Miami-Dade County, FL., a field review is required (**Note:** The cost needs to be paid by originator or borrower. **For Correspondent Lenders , field review must be ordered through one of the following AMCs (Assurant, Clear Capital, Corelogic RELS Valuation, PVCMURCOR Real Estate Services, Solidifi, or SERVICELINK)**
Non-Occupant Co-Borrower	Allowed (**Blended Ratio NOT allowed**) • Must be family members only • Occupant borrower(s) must by themselves qualify at 43.00% DTI maximum • Non-occupant co-borrower can cover for closing costs and reserve requirements. • Non-delegated loan • Blended ratio not allowed
Properties Listed for Sale	Refinances on properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing agreement canceled at least 6 months prior to the date the application. A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing services should be completed to verify that the property is not currently listed by a different agency. For Cash Out Transaction, need at least to be off the market for 6 months.

Delayed Financing	**Delayed Financing/Allowable Cash-out for Properties Recently Purchased with Cash** If borrowers have purchased a primary, second home, or investment property for cash within the preceding 90 days, an application may be considered to provide cash-out as a reimbursement of the borrower's cash investment providing all of the following are met: 1. HUD-1 or Closing Disclosure indicating cash purchase within 90 days prior to the application. 2. Maximum LTV/CLTV based on the purchase LTV/CLTV matrix. 3. Maximum DTI based on the purchase DTI requirements. 4. Minimum Loan Score based on the purchase Loan Score requirements. 5. The LTV/CLTV will be based off the lesser of the original purchase price or current appraised value. 6. Borrower has exhibited a historic level of assets to support the cash purchase (supported by Schedule B of the last two years' tax returns) or other supportive documentation to verify receipt of such funds. A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction. 7. Funds used for the original purchase cannot be borrowed, except by means of a fully secured Loan (for example, margin account, or other real estate). These will be treated on a case-by-case basis. 8. Not allowed in Texas. 9. The Loan must be registered and Closed as a Cash-out refinance since the borrower is already in title to the property. The Loan can be underwritten based on purchase transaction guidelines 10. Limits to the cash out amount from borrower own funds.

Secondary Financing	There are two types of subordinate financing: • Home Equity Line of Credit (HELOC): a mortgage loan that allows the borrower to obtain multiple advances from a line of credit at his/her discretion and that is typically in a subordinate position. • Closed End Loan: a mortgage providing a single advance of funds at the time of loan closing and that is not eligible for additional draws. **Terms** New and existing closed-end and home equity line of credit (HELOC) subordinate financing is permitted when the loan terms meet the following guidelines: • The subordinate financing must be recorded and clearly subordinate to JMAC Funding's first mortgage. • The maximum LTV/CLTV may not exceed the guideline limits for the product and occupancy type • Negative amortization is not allowed: scheduled payments must be sufficient to cover at least the interest due. • If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s) ◦ For all HELOCs, regardless of the line amount when calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits **Accounts** for methods of calculating a payment. • For Closed End Loans: Balloon payments are not allowed. ◦ The terms of a HELOC may provide for a balloon or call option within the first five years after the Note date of the first Mortgage. • For new Closed End subordinate financing: Maturity date or amortization basis of the junior lien must not be less than five years after the Note date of the first lien Mortgage, unless the junior lien is fully amortizing • For Closed End Loans with Interest-Only feature: see **Total Debt Ratio** above. • Equity share or shared appreciation mortgages are not allowed. • Subordinate financing from the borrower's employer may not include a provision requiring repayment upon termination. • Subordinate financing from the property seller (seller carry-back, including any property seller or other private party carried financing.) Is allowed only after the borrower has made a 5% minimum down payment/cash investment Is allowed only when the maximum CLTV* meets the published CLTV limits for the product/program Should be at market rate. If the interest rate is more than 2% below Fannie Mae's posted net yield in effect for second mortgages at time of Closing, it must be treated as a sales concession and a dollar for dollar reduction made to the sales price. *For Non-Conforming Loans, the CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit, rather than the amount of the HELOC in use, must be used. • If an existing HELOC is not in the repayment period and is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV ratio.

• If an existing HELOC is in the repayment period, the current balance is used to calculate the CLTV ratio. A copy of the line agreement is required to verify the customer can no longer draw on the account.

Acceptable Documentation

The terms of any subordinate financing must be verified. The following sources of verification are acceptable:

• An existing subordinate lien that will be re-subordinated may be verified with any of thefollowing:
  - A copy of the credit report
  - A copy of the mortgage note that will be re-subordinated
  - A direct verification from the lender
  - A copy of the loan/line statement

• A new subordinate line that will be obtained at, or prior to, closing may be verified with any of the following:
  - A copy of the mortgage note
  - A direct verification from the lender
  - A copy of the commitment letter from the lender
  - A copy of the HUD-1 or final Closing Disclosure evidencing proceeds

Home equity line of credit (HELOC): When calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits (HELOCs) on other real estate held by the borrower. See the table below for methods of calculating HELOC payments. This is to account for loans that require less than a full principal and interest payment, including but not limited to Interest Only

Transaction	Wells Fargo HELOC	Non-Wells Fargo HELOC
New HELOC on subject property **OR** **Cash-out refinance first lien-all subordinated HELOCs on subject property**	• Full Credit line limit • 20 year amortization term • Fully Indexed Rate (Prime + Margin) from the Note +2.0 Qualifying Economic Adjuster	When there is a payment reported on the credit bureau, use: • Full Credit line limit • 20 year amortization term • Current prime rate +1.5 Margin +2.0 Qualifying Economic Adjuster **OR** Obtain he Note and use: • Full Credit line limit • 20-year amortization term

			• Fully Indexed rate (prime + margin) from the Note +2.0 Qualifying economic adjuster When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: • Full credit line limit • 20 year amortization term • Current prime rate + 1.5 margin + 2.0 qualifying economic adjuster **OR** 5% of the outstanding balance
	Rate/Term refinance **-Existing HELOC on subject property**	• Outstanding balance • 20 year amortization term • Fully Index Rate (Prime + Margin from the Note) +2.0 Qualifying Economic Adjuster	When there is a payment reported on the credit bureau, use: • Outstanding Balance • 20 year amortization term • Current prime rate + 1.5 margin + 2.0 qualifying economic adjuster **OR** Obtain the Note and use: • Outstanding Balance • 20 year amortization term • Current prime rate + 1.5 margin + 2.0 qualifying economic adjuster When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: • Outstanding Balance

			• 20 year amortization term • Current prime rate + 1.5 margin + 2.0 qualifying economic adjuster **OR** 5% of the outstanding balance
	Non-subject property HELOC	When the Wells Fargo or non-Wells Fargo, HELOC is aged less than or equal to 12 months (calculated from open date to note date) Obtain the Note and calculate the qualifying payment based on: • Full credit line limit • 20-year amortization term • Actual rate/margin may be verified with a copy of the note • Do not include any rate/payment discounts that will not apply over the term of the line When there is a payment on the credit bureau and a copy of the note is not available: • Full credit line limit • 20-year amortization term • Current prime rate + 1.50 margin + 2.0 Wells Fargo qualifying economic adjuster • Do not include any rate/payment discounts the will not apply over the term of the line When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: • Outstanding balance or full credit line limit, as outlined above ○ 20-year amortization term ○ Current prime rate + 1.5 margin + 2.0 qualifying economic adjuster **Or,** 5% of the outstanding balance or full credit line limit, as determined by above criteria	

<table>
<tr><td rowspan="3"></td><td></td><td>If the borrower has sufficient liquid assets to pay off the full credit line limit amount in addition to standard policy requirements for post-closing reserves, the qualifying payment calculation may be based on outstanding balance rather than the full credit line limit.

When the Wells Fargo, or non-Wells Fargo, HELOC is aged more than 12 months (calculated from open date to note date)
Obtain the Note and calculate the qualifying payment based on:
Outstanding balance
20-year amortization term
Actual rate/margin may be verified with a copy of the note
When there is a payment on the credit bureau and a copy of the note is not available:
Outstanding balance
20-year amortization term
Current prime rate
+ 1.50 margin
+ 2.0 qualifying economic adjuster
When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of:
Outstanding balance or full credit line limit, as outlined above
20-year amortization term
Current prime rate
+ 1.5 margin
+ 2.0 qualifying economic adjuster
Or,

5% of the outstanding balance or full credit line limit, as determined by above criteria</td></tr>
<tr><td>Non-subject property – other than HELOCS</td><td>When calculating the DTI, full principal and interest payments are used for all first mortgage/lien on all real estate owned/held by the borrower.
Note: This is accounts for Loans that require less than a full principal and interest payment, including but not limited to Interest Only.</td></tr>
<tr><td colspan="2">Please Note: Prime rate can be found in the Wall Street Journal</td></tr>
</table>

	HELOCS ON REAL ESTATE OWNED OTHER THAN THE SUBJECT PROPERTY For qualifying purposes, Mortgage payments included HELOCs, must use a fully indexed, fully amortized principal and interest payment calculation. First mortgages on a non-subject property will use the following data to calculate a qualifying principal and interest payment: • Outstanding principal balance • Fully indexed note rate • Existing amortization term Borrowers should be qualified with a full PITI payment including Homeowner Association fees, if applicable. When the borrower is the credit account owner on an authorized user account, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio. When the borrower is the authorized user and the account is being used as a tradeline, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio. Certain open-ended accounts (such as American Express) require payment in full monthly. For such accounts, one of the following options may be used for qualifying: • Document sufficient assets to pay off the full balance (beyond cash required to close and reserves). In addition, use the greater of 5 percent of the balance or $10 for a qualifying payment. • If sufficient assets are not available, use the full balance for a qualifying payment; if a lower payment amount can be documented from the creditor, that amount may be used for qualifying purposes. • Follow verbal verification requirements or obtain a written verification or account statement.
Rental Income Analysis	**Stability of Rental Income** The stability of the rental income must be documented through 24 months of rental management experience or rental income history. This can include any rental property, not exclusive to the subject. **Rental Management Experience or Rental Income History** Rental management experience and rental income history is verified by obtaining the most recent two years of filed and signed federal IRS 1040 tax returns. **Tax Returns Aged Nine Months or More From the Date of the Last Tax Year Filed** Verification of current lease agreement and three months cancelled checks to verify current cash flow and rental management experience, or 10% Post Close Liquidity (PCL) based on the total aggregate liens on the subject property, in addition to standard PCL, is required unless: ▪ The rental income makes up less than 25% of the total qualifying income; or ▪ Appraisal indicates that units generating rental income used to qualify are tenant-occupied.

	Eligible Rental Income The following are acceptable sources of rental income: ▪ Rent received from investment properties or other units of an owner-occupied multifamily property may be considered stable income. ▪ Rents received from a live-in aide, generated from a disabled borrower's 1-unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in-aide then makes rental payments to the borrower. This source of income is non-taxable and is not reported on the borrower's personal filed and signed federal IRS 1040 tax returns. This income source may be considered stable monthly income, if both of the following are met: ▪ The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis. ▪ The live-in aide plans to continue to reside with the borrower for the foreseeable future. Monthly Operating Income ▪ See cash flow calculation section below for determining whether the income is positive or negative. ▪ Positive net rental income may be considered stable monthly income. ▪ Negative net rental income must be considered a liability for qualification purposes. **Ineligible Rental Income** The following are ineligible rental income types: ▪ Rent from boarders in a single-family property that is also the borrower's primary residence. o Income from a live-in aide may be allowed, refer to Eligible Rental Income requirements above. ▪ Rent from a property that is the borrower's second home. Any indication of a gap in rental history/income greater than three months requires a written explanation from the borrower. If a non-subject investment property is pending sale, review the following documents to consider offsetting the principal, interest, taxes, insurance (PITI) payment: ▪ Lease duration, and ▪ Three months of canceled checks or bank statements verifying receipt of rental income. **Note**: Any additional income, above the PITI offset, from the non-subject investment property cannot be used as qualifying income. For existing principle residence converting to investment property, refer to Section 825.23: Departure Residence Policy requirements. **Documentation Requirements – Rental Income Used To Qualify** Rental management experience and rental income history is verified by obtaining the most recent 2 years filed and signed federal IRS 1040 tax returns, including Schedule E., regardless of how long the property has been owned. Rental income from commercial rental properties requires two years' complete filed and signed federal IRS 1040 tax returns, including schedule E.

Tax Returns Aged Nine Months or More From the Date of the Last Tax Year Filed
Verification of current lease agreement and three months cancelled checks to verify current cash flow/rental management experience OR 10% Post Close Liquidity (PCL) based on the total aggregate liens on the subject property, in addition to standard PCL, is required unless:

- The rental income makes up less than 25% of the total qualifying income; or
- Appraisal indicates that units generating rental income used to qualify are tenant-occupied.

Any indication of a gap in rental history/income greater than three months requires a written explanation from the borrower.
For subject property, rental Income used to qualify must be supported by operating income statement (216) or comparable rent schedule (1007).

Property Owned Less Than 12 months

When property has been owned less than 12 months and is not reflected on the borrower's most recent, filed and signed federal IRS 1040 tax returns, the following is required:

- Copies of the present, signed leases may be used only if the borrower has a two-year history of property management experience as evidenced by the most current two years' filed and signed federal IRS 1040 tax returns.
- In addition:
- For refinance transactions, three months of canceled checks or bank statements verifying receipt of rental income, or
- For purchase transactions, existing tenant lease agreement may be used when transferred as part of the sale of the property. Three months canceled checks are not required.

Insurance Requirements – Subject Property
Rent loss insurance is required if:

- For 1-unit investment property and 2-4 unit primary residence where borrowers are relying on rents from the units they will not be occupying.
- If the income from those units is used to qualify the borrowers.
- The insurance must provide coverage for an amount equal to a minimum of six months of the rental income.

Documentation Requirements - Rental Income Not Used to Qualify
Documentation is not required when rental income is not used to qualify.

Determining Qualifying Rental Income
Determine qualifying rental income utilizing the following Cash Flow calculation only with IRS Form 1040 Tax Return or Other Business Returns, Including Schedule E.

Make the following adjustments to the net income shown on Schedule E to determine the monthly operating income:

Net Income
\+ Depreciation, mortgage interest, real estate taxes, insurance and homeowners association fees, if any
\- Un-allowed losses, if any

	+ Loss carry-overs from previous years, if any - Annualized mortgage payment for rental property = Annual operating income ÷ Annual operating income 12 months = Monthly operating income When the monthly housing expense is included in the rental cash flow, it should not also be added to the long-term debt. Monthly Operating Income ▪ Positive net rental income may be considered stable monthly income. ▪ Negative net rental income must be considered a liability for qualification purposes. When using rental income to qualify from a 2-4 unit primary residence that is not the subject property: ▪ The current monthly principal, interest, taxes, insurance (PITI) payment on the borrower's primary residence must be included in the liabilities. ▪ The monthly operating income should be included in qualifying income. For an investment property, subtract the monthly housing expense from the monthly operating income to determine the net cash flow. For subject property, rental Income used to qualify must be supported by operating income statement (216) or comparable rent schedule (1007). **Lease Agreements** A vacancy / maintenance expense factor of 25% should be deducted from the rental income verified by the current lease agreement for determining qualifying income. However, when a lease agreement is used to support higher income, review the prior year's filed and signed federal IRS 1040 tax returns to determine the appropriate vacancy / maintenance factor to use, which may be higher than 25%. For subject property, rental income used to qualify should be supported by operating income statement (216) or comparable rent schedule (1007).

Rental Payment Verification	A professional management company or an individual landlord may verify rental housing payments. If an individual landlord provides a reference, either directly or on a credit report, the borrower must provide evidence of timely payment for the most recent 12 months with **one** of the following:
	• Canceled checks, or
	• Bank statements showing the payment, or
	• Money order receipts, or
	• Cash receipts
	    – Cash receipts are not allowed, and canceled checks, bank statements, or money order receipts are required, if the landlord:
	        ▪ Is a relative of the borrower or
	        ▪ Has an established relationship, prior to the Loan transaction, with the borrower beyond their connection as renter and landlord (examples include, but are not limited to, co-workers, close personal friends, partner, business associate, realtor, etc.)

	– If using cash receipts, the name, address, and telephone number of the individual receiving the payments must be provided. In the event the borrower is living with family, or when no mortgage or rental payment history can be obtained, the following documentation is required: ▪ A letter of explanation and ▪ Credit report verifying an acceptable traditional credit history and evidencing compliance with minimum Loan Score requirements
Identity of Interest Transactions	The identity of interest transactions includes both non-arm's length and at-interest transactions. • Loans for second homes or investment properties are not eligible. On a case by case basis, non-arm's length and identity of interest transactions may be considered if the borrower is purchasing the property as a primary residence. This loan will be considered non-delegated. • For newly constructed properties, the Loan is not an eligible transaction if the borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer, or seller of the property. • Flip transactions not eligible • Title changes from LLC or partnership to an individual is only allow as a non-delegated loan. • Transactions where the purchase contract has been assigned to the borrower are generally not acceptable, but may be eligible for consideration provided there was no increase in sales price and the explanation for the assignment seems reasonable. If the earnest money is being transferred, it must be treated as a sales concession and deduct from the sales price. • Employer and employee sales - this is a transaction in which a builder or developer is selling to property to one of it's employees who does not hold a principle ownership interest. • Family Sales – this is a transaction where one family member is selling to another. Often there is no real estate agent involved or the agent may also be the family member. These transactions carry the potential for increased risk as they may be bailout situations. (e.g. the selling party has financial problems and is unable to refinance). Lender to insure seller have not been late in the past 12 months. • Gift of Equity – gift equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. The donor must provide a gift letter. Documentations required: ○ Copy of the canceled earnest money check to verify payment of seller of any ○ Verification that the borrower is not now, nor has been in the previous 24 months, in title to the property ○ Payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be provided and show no pattern of delinquency within the past 12 months ○ Letter of explanation from the borrower stating the relationship to the seller and the reason for the purchase
Self-Employed Calculations	**Income Calculation Methods** The Investor Cash Flow Method must be used to qualify the borrower, taking into account any supported adjustments made during the analysis of income. Two calculations must be performed to validate cash flow and the lower of the 2 methods will be used for qualification purpose: • The Investor Cash Flow Method (Cash Flow Method) considers distributions that the borrower is taking from the business. • The Investor Baseline Method (Cash Flow Method) considers the net income from the business.

The Baseline Method allows the underwriter to determine if distributions are less than or greater than the net income from the business. If positive adjustments to cash flow are made, further analysis and documentation are required to determine if the adjustments are supported, considered stable, and likely to continue.

If the income from the Cash Flow Method, including any adjustments, exceeds the income from the Baseline Method, careful consideration and analysis must be given to documenting the income is available, considered stable, and likely to continue.

Calculations for each method are shown in the sections below for the various business classifications/tax return types (sole proprietorship, corporate, or partnership).

Evaluating Schedule C

This is business income or loss for a sole proprietorship.

Income is calculated as follows:

	Baseline Method	Investor Cash Flow Method
Schedule C - Profit or Loss From Business (Sole Proprietorship)	Net profit + depletion + depreciation	Net profit + expenses for business use of home + depletion + depreciation - 2106 Expenses and meals/entertainment + amortization/casualty loss

Evaluating Schedule D

Capital gains or losses generally occur only one time, and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three years' tax returns are required to evaluate an effective earning trend. If the trend:

• Results in a gain, it may be added as effective income, or
• Consistently shows a loss, it must be deducted from the total income.
• Anticipated continuation of income must be documented through verified assets.

Example:

Capital gain for an individual who purchases old houses, remodels them, and sells them for a profit.

When using income from capital gains, the underwriter must determine that the borrower's current asset portfolio is sufficient to support future capital gains. The underwriter must also consider whether an income-generating asset was sold during the year, as future business income may be reduced as a result of the sale.

Evaluating Corporate Tax Returns (IRS Form 1120)

The primary purpose for reviewing business tax returns is to analyze the financial strength of the business and to confirm that it will continue to generate the income the borrower needs to qualify for the requested Loan. When the individual tax return confirms sufficient borrower income and the business tax return indicates a viable company, the corporation need not be investigated any further.

Income is calculated as follows:

	Baseline Method	Investor Cash Flow Method
C -Corporation	Officer's compensation (W-2) + Borrower's share of: taxable income - tax liability + depletion + depreciation	Officer's compensation (W-2) + dividends/distributions + or - loans to shareholders - capital contributions/additional paid-in capital - unreimbursed partnership expenses (UPE), 2106 Expenses and meals/entertainment

Evaluating S Corporation Tax Returns (IRS Form 1120s) And Schedules K-1

The gains or losses of an S corporation are passed on to the shareholders who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1120S) and transferred to Schedule E of the individual tax return.

The primary source of income for an owner of an S corporation comes from W-2 wages, which are traced to the Compensation of Officers line of the IRS Form 1120S and reported on IRS Form 1040.

Income is calculated as follows:

	Baseline Method	Investor Cash Flow Method
S-Corporation	Officer's compensation (W-2) + Borrower's share of: Ordinary income/loss + net rental real estate income (loss) + depreciation + depletion - total obligations payable in < 1 year	Officer's compensation (W-2 and/or Guaranteed Payments to Partners) + cash distributions + or - loans to shareholders - capital contributions/additional paid-in capital - unreimbursed partnership expenses (UPE), 2106 Expenses and meals/entertainment

Evaluating Partnership Tax Returns (IRS Form 1065) And Schedule K-1

Both general and limited partnerships use the IRS Form 1065 federal income tax return. The gains or losses of a partnership are passed on to the partners who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1065) and transferred to Schedule E of the individual tax return.

	Baseline Method	Investor Cash Flow Method
Partnership	Partner's share of: Ordinary income/loss + net rental real estate income (loss) + guaranteed payments + depreciation + depletion - total obligations payable in < 1 year	Officer's compensation (W-2 and/or Guaranteed Payments to Partners) - capital contributed during year + withdrawals and distributions + or - loans to partners - unreimbursed partnership expenses (UPE), 2106 Expenses and meals/entertainment

THE MARKET CLASSICATION RESTRICTED MARKETS, VALUE-BASED MEDIAN HOME PRICE CLASSIFICATION AND METROPOLITAN STATISTICAL AREA MAP LIST ARE ON SEPARATE DOCUMENTS. BOTH DOCUMENTS CAN BE VIEW FROM THE JMAC PRODUCT RESOURCE WEBPAGE.