



## Jumbo Fixed

### PRIMARY RESIDENCE – PURCHASE <sup>1</sup>

Property Type	Maximum LTV	Maximum CLTV/HCLTV	Minimum Loan Amount	Maximum Loan Amount <sup>2</sup>	Minimum Credit Score
1-Unit PUD Condo	80%	80%	\$417,001	\$1,500,000	720
	75%	75%		\$2,000,000	720
	70%	70%		\$1,000,000	700
	70%	70%		\$2,500,000 <sup>4</sup>	720
2-Unit	65%	65%	\$417,001	\$1,000,000	700
	60%	60%		\$1,500,000	720

### PRIMARY RESIDENCE – RATE/TERM REFINANCE <sup>1</sup>

Property Type	Maximum LTV	Maximum CLTV/HCLTV	Minimum Loan Amount	Maximum Loan Amount <sup>2</sup>	Minimum Credit Score
1-Unit PUD Condo	80%	80%	\$417,001	\$1,000,000	720
	75%	75%		\$1,500,000	720
	70%	70%		\$1,000,000	700
	70%	70%		\$2,000,000	720
	60%	60%		\$2,500,000 <sup>4</sup>	720
2-Unit	65%	65%	\$417,001	\$1,000,000	700
	60%	60%		\$1,500,000	720

### PRIMARY RESIDENCE – CASH-OUT REFINANCE <sup>1,3</sup>

Property Type	Maximum LTV	Maximum CLTV/HCLTV	Minimum Loan Amount	Maximum Loan Amount	Maximum Cash-Out <sup>2,3</sup>	Minimum Credit Score
1-Unit Condo PUD	65%	65%	\$417,001	\$1,000,000	\$250,000	700
	60%	60%		\$1,500,000		
	55%	55%		\$2,000,000	\$500,000	720
	45%	45%		\$2,500,000 <sup>4</sup>		

### SECOND HOME – PURCHASE AND RATE/TERM REFINANCE <sup>1</sup>

Property Type	Maximum LTV	Maximum CLTV/HCLTV	Minimum Loan Amount	Maximum Loan Amount <sup>2</sup>	Minimum Credit Score
1-Unit Condo PUD	75%	75%	\$417,001	\$1,000,000	720
	70%	70%		\$1,500,000	
	65%	65%		\$2,000,000	
	50%	50%		\$2,500,000 <sup>4</sup>	

1. Construction loans are not eligible.
2. All loans require management review; please allow additional time.
3. Maximum cash back to borrower is including non-mortgage debt to be paid off.
4. Available for 30 year term only.

## PROGRAM SUMMARY

The Jumbo Fixed Rate is a mortgage loan program offering a fixed-rate product allowing for jumbo loan balances.

## PRODUCTS OFFERED

Product Name	Loan Term
Jumbo 30-Year Fixed	30 years
Jumbo 15-Year Fixed	15 years

## ELIGIBLE BORROWERS

- U.S. Citizens
- Lawful resident aliens are eligible for the same financing as U.S. citizens if they can provide evidence of lawful residency and they meet all of the same credit standards as U.S. citizens.
  - A copy of the borrower's identification is required to verify review of the acceptable documentation that evidences borrower is eligible to lawfully reside in the U.S.
    - Must have a valid Green Card, evidence of continuous for at least 12 months
    - Borrower must be employed in the U.S. for the last 12 months.
    - Income must be likely to continue for at least 3 years.
- First time homebuyers (borrowers who have not owned a property in the last 3 years). For loans with more than one (1) borrower where at least one borrower has owned a home in the past three (3) years, first-time homebuyer requirements do not apply.
  - Eligible on primary residence only
  - Eligible with 12 months reserves
  - Maximum loan amount of \$1,000,000

## INELIGIBLE BORROWERS

- Non-resident aliens (foreign nationals)
- Non-permanent resident aliens
- All trusts
- Land trusts, except for Illinois Land Trust
- Non-occupant co-borrowers
- Limited partnerships, general partners or corporations
- Non-arms-length transactions – See TRANSACTION TYPES for further requirements.

## ELIGIBLE PROPERTY TYPES

- 1 to 2-Unit properties
- Low, mid and high-rise condos (must be FNMA warrantable)
- Planned Unit development (PUD)
- Leaseholds

## WARRANTABLE CONDOMINIUMS

- FNMA Types R & S. (Type R eligible with CPM or PERS approval, not eligible in FL)
- Site-condos (must be detached)
- Each condominium project must be reviewed and approved by Flagstar's Condo Review Department. Current Flagstar approved condo list is not eligible. All Projects must be re-reviewed. Refer to *Condominium Submission Instructions*, [Doc. #3253](#) for details.

- Limited review is not eligible.

The underwriter is to obtain the CPM confirmation to be placed in loan file.

**SITE CONDO REQUIREMENTS**

When the underwriter performs a review for a mortgage secured by a detached unit in a condo project, the following eligibility criteria must be met:

<b>Review Eligibility Criteria for Detached Condo Units</b>
The mortgage is secured by a single detached unit in a condo project.
The mortgage is not secured by a manufactured home.
The project is not an ineligible project. (See <a href="#">Conventional Underwriting Guidelines</a> )
The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.

**INELIGIBLE PROPERTY TYPES**

- 3 to 4-Unit properties
- Manufactured/mobile homes
- Modular homes
- Condo-hotel Units
- Unique properties
- Log homes
- Co-ops
- Working farms, ranches or orchards
- Mixed-use properties
- Income producing properties with acreage
- Properties with more than 20 acres (If the property has acreage, the appraiser must indicate total acreage. It is not acceptable to have property appraised with only 20 acres in order to meet eligibility).
  - For properties >10 to 20 acres
    - 30 year fixed rate only
    - Maximum 35% land to value
    - No income producing attributes
- Properties subject to oil and/or gas leases.

**LOAN AMOUNTS**

Minimum: \$417,001

Maximum: Refer to the [product eligibility grids](#) above

**SECTION 32 – HIGH-COST LOANS**

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

### LOCK ELIGIBILITY

Please contact the Secondary Marketing department when the loan is ready to be locked. Off-sheet pricing is not available. Please see price indication sheets for maximum premium. Lock extensions not to exceed 15 days.

### TRANSACTION TYPES

#### NON-ARMS LENGTH TRANSACTIONS

Any transaction where there is a relationship or business affiliation between the buyer, seller, loan agent, or originator in the transaction is considered non-arms length. Non-arms length transactions also include, but are not limited to:

- Applicants related by blood or marriage to the seller.
- Owners, employees or family members of originating broker.
- Builder/developers.
- Renters buying from landlord.
- Trading properties with a seller.

Non-arms length transactions are not eligible for financing under this product with the exception of the following:

- Property sellers are representing themselves as agent in real estate transaction
- Buyers/Borrowers are representing themselves as agent in real estate transaction.

#### REFINANCE TRANSACTIONS

All Refinance transactions require the completion of a *Net Tangible Benefit Worksheet*, [Doc. #3920](#). It must be completed and in the file at the time of submission. Supporting documentation is required to be in the loan file to verify the information entered onto the Net Tangible Benefit Worksheet. Verification documents from the existing lien may include:

- Copy of note(s) from existing lien(s)
- Payment coupon
- Payoff statement
- Final TIL

If borrower has less than 12 months ownership in the property, LTV/CLTV is calculated on the lower of the purchase price or appraised value. If the borrower has owned property for more than 12 months, LTV/CLTV is based on the appraised value.

Properties that have been listed for sale within 12 months of loan application are not eligible for any refinance transaction.

Inherited properties may not be refinanced prior to 12 months ownership.

Construction loans are not eligible.

#### RATE/TERM REFINANCE LOANS

- The new loan amount is limited to the payoff of the present first mortgage and
- Any Seasoned non-first lien mortgage, closing costs and prepaids and
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for 12 months. A seasoned equity line is defined as not having any draws

greater than \$2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history for the Line of Credit.

- Cash to borrower is limited to the lesser of 1% of the principal amount of the new mortgage or \$2,000.

### CASH-OUT REFINANCE LOANS

- Borrower must have owned property for at least six months prior to the application date unless requirements for Delayed Purchase Refinance are met.
- Cash out limitation is waived when the previous transaction is a purchase and the proceeds for the subject loan will be used to pay off or pay down a pledged asset or retirement account loan used to purchase the subject property. Maximum loan amounts as indicated in the eligibility grid are still applicable.
- HUD-1 settlement statement must reflect payoff or pay down of pledged asset loan or retirement account loan. If cash out proceeds exceed payoff of loans, excess cash must meet the cash out limits.
- **If an unseasoned, non-purchase money second is being paid off, both the loan and the amount of the 2<sup>nd</sup> mortgage will be included in the cash out limitation.**

### DELAYED PURCHASE REFINANCE LOANS

Defined as the refinance of a property purchased by the borrower for cash within 6 months of loan application. Transaction is eligible if it meets the following criteria:

- Underwritten as a rate & term refinance
- Primary residence
- Obtain HUD-1 from original purchase
- Document that the purchase funds were from the borrower's own funds and that there was not any borrowing, gifts or shared funds.
- Funds secured by a pledged asset or retirement account are not considered to be from the borrower's own funds and must be considered a cash out transaction.

## **CALCULATING LTV/CLTV/HCLTV**

### PURCHASE LOANS

Lesser of the current appraised value or acquisition cost.

### REFINANCE LOANS

- If borrower has less than 12 months ownership in the property, LTV/CLTV/HCLTV is calculated from the lesser of the purchase price or appraised value.
  - Properties where capital improvements have been made after purchase, the LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or the purchase price plus documented improvements (file must contain receipts).
- If the borrower has owned the property for more than 12 months the LTV/CLTV/HCLTV is based on the appraised value.

### CONSTRUCTION-TO-PERMANENT

- If the lot was acquired 12 or months prior to the construction financing, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
- If the lot was acquired less than 12 or more months prior to the construction financing the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total

acquisition costs (sum of construction costs and the lower of the sales price or the current appraised value of the lot).

**PROPERTY VALUES**

Extreme care must be applied to insure that the appraiser is specific with regard to the impact the market decline has upon the transaction being evaluated. Typically, appraisals should not contain comparables greater than six months old at time of underwriting review. Properties with values significantly in excess of the predominant value of the subject’s market area may be ineligible.

Flagstar reserves the right to establish guidelines based on current market conditions when conditions suggest an increased risk in property values.

**MINIMUM CREDIT SCORE**

Refer to [Eligibility Grids](#) above. No exceptions to credit score requirements.

**QUALIFYING RATE**

Note Rate

**QUALIFYING RATIOS**

Maximum 43% debt-to-income ratio; no exceptions to DTI requirements.

Liabilities include all housing expenses, revolving debt, installment debts, real estate loans, rent, alimony, child support, and other consistent and recurring expenses.

Stock pledges and any loan payment associated with the pledge account will not be included in the DTI calculation.

For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.

**RESERVES**

Occupancy	Loan Amount	Required Reserves <sup>5, 6, 7</sup>
Primary Residence	Up to \$1,000,000	6 months, verified PITI
	\$1,000,000 – \$1,500,000	9 months, verified PITI
	\$1,500,000 – \$2,000,000	12 months, verified PITI
	\$2,000,001 – \$2,500,000	24 months, verified PITI
Second Home	Up to \$1,000,000	12 months, verified PITI
	\$1,000,000 – \$1,500,000	18 months, verified PITI
	\$1,500,000 – \$2,000,000	24 months, verified PITI
	\$2,000,001 – \$2,500,000	36 months, verified PITI

- 5. In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.
- 6. When borrowers have financed properties in additional to the subject property, an additional 6 months PITI reserves are required for each property.
- 7. Business funds are not allowed for the purpose of calculating reserves.

**SUBORDINATE FINANCING**

- Only institutional financing up to the maximum LTV/CLTV/HCLTV is eligible.

- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- Full disclosure must be made on the existence of subordinate financing and the repayment terms.
- Acceptable subordinate financing types:
  - Mortgages with regular payments that cover the interest due so negative amortization does not occur.
  - Mortgage terms that require interest at a market rate.
  - Seller subordinate financing not eligible.

### INTERESTED PARTY CONTRIBUTIONS

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment.

CLTV/HCLTV	IPC Allowance
75.01% – 80%	3%
≤ 75%	6%

All seller concessions must be addressed in the sales contract documents, loan application, appraisal report, and the HUD-1. If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV/HCLTV.

In cases where the appraisal does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, the underwriter must make a downward adjustment to the appraised value of the mortgaged property to reflect the cost of the contribution. The revised LTV is based on the lesser of the appraised value or reduced sales price.

### CONTINUITY OF OBLIGATION

Refer to [Conventional Underwriting Guidelines](#), *Continuity of Obligation* section.

### SOURCE OF FUNDS

Borrower must contribute at least 10% toward the transaction from their own funds for purchase transactions. See the [Gift Funds](#) section for additional information.

#### GIFT FUNDS

- The donor must be an immediate family member or domestic partner (domestic partner donors must live with borrower; all large deposits in donor's account within 60 days must be sourced).
- Executed gift letter is required
- Transfer of funds or evidence of receipt must be documented prior to close.
- Acceptable after a minimum 10% down payment has been made by the borrower from their own resources.
- Gift funds may not be used to meet reserve requirements.

### TEMPORARY BUYDOWNS

Not eligible

### AUS RESPONSE

Jumbo Fixed loans are manually underwritten and are not eligible for AUS submission.

### UNDERWRITING

All guidelines not addressed below must meet the parameters documented in our [Conventional Underwriting Guidelines](#). Third Party Originations are not eligible. All new construction property loans must have a Certificate of Occupancy.

#### UNDERWRITING SUBMISSIONS

- The Jumbo Underwriting department in Troy, MI will underwrite all loans. No Delegated underwriting is allowed.
- Submission of compliance documents will be a prior to close condition (i.e. initial application, TIL, GFE, ARM disclosure, and Net tangible benefit worksheet). All documents must be completed in full, signed and dated.
- Purchase agreements must be completely executed by all parties and include all pages
- Title policy for file must include a 24 month chain of title.
- Loan/Property Restrictions per Borrower:
  - Borrowers will be limited to a maximum number of 2 Jumbo Loans per borrower at any time.
  - A borrower may not have more than four residential properties financed. Joint ownership in residential real estate is considered the same as total ownership and is subject to the same restriction.
- All loans must contain the following documentation prior to submission to Underwriting:
  - Completed 1003
  - Complete income documentation
  - Complete asset documentation
  - Title work. Commitment may not be more than 90 days from date Note is signed
  - All applicable initial disclosure, fully executed within appropriate timeframes
  - Purchase agreement/sales contract, if applicable
- An appraisal is required if the transaction is a refinance, please refer to the [Appraisal Guidelines](#) section for requirements.

#### PROPERTY OWNERSHIP HISTORY

Underwriting will take into consideration the number of properties owned and the length of time the properties have been owned. Investors who demonstrate a rapid acquisition (acquired within the most recent 24-month period) of investment properties will be reviewed cautiously. Underwriting reserves the right to request documentation to evidence the borrower had the funds required to purchase any property acquired within the last 24 months and/or sufficient verified asset to provide adequate reserves for the investment portfolio.

#### CREDIT REQUIREMENTS

- All loans must have a fully executed Social Security Number Verification, [Doc. #3257](#) with results obtained, prior to close. Underwriter to obtain results.
- Credit report must be a tri-merge credit report or an RMCR. Every submitted credit bureau report must include the full name, address and social security number of each borrower. If any of this information is inconsistent with that on any document in the file, a new report and/or explanation will be required.
- Credit reports may not be more than 90 days from date Note is signed.

- The underwriter must verify that each account on the credit report with a balance has been checked within 90 days of the date of the credit report.
- Current mortgage payment history within 30 days will be required if not reflected on the credit report.
- Underwriter will require borrower to provide a written explanation for any credit inquiries in the last 120 days.
- Credit Score – Use lower of 2 or middle of 3 to determine each borrower’s representative score. Each borrower must have at least 2 scores.
- A valid usable credit score is one that is generated based on a minimum of 4 tradelines (installment, revolving accounts, mortgages, etc.), one of which has been open a minimum of 24 months, the other three for at least 12 months and accurately reflecting the borrower’s credit history. Tradelines must be open, but do not have to reflect a current balance. At least one installment tradeline rated for 12 months is required within the past 36 months.
- If there are less than 4 tradelines, or the tradelines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior, even if the report includes a credit score.
- An acceptable tradeline is one from a traditional credit source. Alternative credit trades or such items as collections, charge-offs, “authorized user” accounts, deferred loans with no payment history, or transferred accounts are all considered unacceptable tradelines.
- Any revolving tradeline without a minimum payment amount listed on the credit report will use \$10 or 5% of the outstanding balance, whichever is greater. All deferred student loan payments must be documented.
  - If the borrower’s ratios are at the maximum permitted the underwriter should obtain actual minimum payments from the borrower’s account statements to qualify.
- Credit in accordance with below listed guidelines is required (In addition to the minimum credit score) on all files.
- All past due accounts must be brought current prior to closing.
- Mortgage late payments within the past 24 months are not allowed.
- All judgments and tax liens must be paid prior to closing.
- Collections over \$250 individually or \$1,000 aggregate, must be paid.
- Major derogatory should be evaluated against the borrower’s overall credit in the last 24 months and reflect a willingness and capacity to repay. Paying off revolving outstanding debt to qualify is allowed. Paying down of revolving debt to qualify is unacceptable. Payoffs on a refinance transaction must be reflected on the HUD-1 Settlement Statement. On purchase transactions, any loans requiring pay off must be paid off prior to closing and source of funds to do so must be documented. Gift funds are not a viable source of funds to pay off debt to qualify.
- Any disputed accounts must be resolved prior to closing.
- The following require a written explanation from the borrower:
  - Late Payments
    - Derogatory Credit
- Borrowers with a foreclosure in their credit history are not eligible for financing.
- Borrowers with a bankruptcy in their credit are not eligible for financing.
- Borrowers who have had a loan modification or surrendered a property through a Short Sale or Deed-In-Lieu are not eligible for financing.

**CREDIT STANDARDS**

<b>Tradelines</b> <sup>8</sup>	Minimum 4 open tradelines. One must be open and active for 24 months and remaining 3 must be rated for 12 months.
<b>Authorized User Accounts</b>	Not eligible and are not acceptable forms of credit.
<b>Mortgage/Rent</b>	0x30 in past 24 months (No Exceptions)
<b>Installment Debt</b>	At least one installment tradeline rated for 12 months is required within the past 36 months.
<b>Revolving Debt</b>	See tradeline requirements for details.
<b>Bankruptcy</b>	Not eligible
<b>Foreclosure</b>	Not eligible

8. All tradelines must have activity within this time frame.

**EMPLOYMENT AND INCOME**

- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date Note is signed.
- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Standard FNMA full documentation is required (2 years W2s and current pay stub, etc.). Pay stubs must be computer generated. Handwritten pay stubs require a borrower to provide tax returns and all schedules.
- The following income documentation must be provided for each borrower whose income is used to qualify:

<b>Employment Income</b>	
<b>Income Type</b>	<b>Required Documentation</b>
Salaried	<p>An earnings trend must be established and documented. Large increases in salary over the previous two years must be explained and documented.</p> <ul style="list-style-type: none"> <li>• W-2 forms or personal tax returns, including all schedules, for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> <li>• If borrower is claiming overtime pay, it must be shown on the YTD pay stub.</li> </ul>
Hourly & Variable Income	<p>An earnings trend must be established and documented. Stable to increasing income should be average over a minimum two year period. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. Declining income must be explained by the employer/borrower and a written determination by the underwriter must be provided if declining income is used for qualifying.</p> <ul style="list-style-type: none"> <li>• W-2 forms or personal tax returns, including all schedules, for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>

**Employment Income**

Income Type	Required Documentation
Part-Time Income	<p>Borrower must have worked the part-time job uninterrupted for the past two years, and plans to continue. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. If the part-time income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application</li> </ul>
Commission	<p>Commission income must be averaged over the previous two years. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.</p> <p>If the commission income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years if commissions are less than 25% of the total income.</li> <li>• Tax returns, including all schedules, and W-2 form from the previous two years if commissions are <math>\geq</math> 25% of the total income.</li> <li>• Unreimbursed business expenses (form 2106) must be subtracted from income.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>
Overtime & Bonus	<p>An earnings trend for bonus and overtime must be established and documented. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.</p> <p>If either type of income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms or personal tax returns, including all schedules, for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>
Returning to Work After an Extended Absence	<p>For a Borrower who has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document.</p> <p>A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:</p> <ul style="list-style-type: none"> <li>• Is employed in the current job for six months or longer; and</li> <li>• Can document a two year work history prior to an absence of employment using:             <ul style="list-style-type: none"> <li>○ Traditional employment verifications; and/or</li> <li>○ W2 forms, for prior 2 years</li> </ul> </li> </ul>
Employment Gaps	<p>The borrower must provide a detailed two-year employment history including a written explanation for any gaps in employment that span one or more months. The underwriter must determine that any gaps do not affect employment stability. Gaps in employment due to the borrower attending training or schooling for a specific profession must be documented with diploma, transcripts, etc.</p>

**Employment Income**

Income Type	Required Documentation
Borrower's planning to retire within the first three-year period of the mortgage	<p>Effective income for borrower's planning to retire during the first three-year period must include the amount of:</p> <ul style="list-style-type: none"> <li>• Documented retirement benefits;</li> <li>• Social Security payments; or</li> <li>• Other payments expected to be received in retirement</li> </ul>
Self-Employed Income	<p>Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.</p>
Borrower Employed by Family Member	<p>Borrowers who are employed by a family member are considered to be self-employed, regardless of the percentage of ownership, and self-employed documentation is required. Potential ownership by the borrower must be addressed. The underwriter must clarify potential ownership by the borrower. A borrower may be an officer of a family operated business but not an owner.</p> <ul style="list-style-type: none"> <li>• Written verification of the borrower's status should be obtained by written confirmation from an accountant or legal counsel.</li> <li>• Borrowers must provide the preceding two years signed, dated individual and business (if applicable) tax returns, with all supporting schedules.</li> <li>• YTD pay stub up through and including the most current pay period at the time of application.</li> <li>• W-2 forms, for prior two years</li> </ul>
Sole Proprietorship	<ul style="list-style-type: none"> <li>• Current YTD P&amp;L through the most recent quarter.</li> <li>• YTD balance sheet through the most recent quarter.</li> <li>• Personal tax returns, including all schedules, for prior two years.</li> </ul> <p>Note: only depreciation and depletion may be added back</p>
Partnerships, (General, Limited), Limited Liability Companies, "S" Corporations, Corporations	<ul style="list-style-type: none"> <li>• Current YTD P&amp;L through the most recent quarter.</li> <li>• YTD balance sheet through the most recent quarter.</li> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• K-1s from prior two years, showing ownership percentage. K-1s are not required if the source is reporting positive income and the income is not used for qualification. If K-1s show a loss, they are required, regardless if they are used for qualifying purposes. If using capital gains, interest/dividend or W2 income from this source is used, K-1s are required.</li> <li>• Business tax returns (1065/1120), including all schedules, for the prior two years are required if the borrower has an ownership percentage <math>\geq 25\%</math>; they are not required if reporting positive income via a K-1, and the income is not used for qualification purposes.</li> </ul>

**Rental Income**

Income Type	Required Documentation
All properties	<p>Rental income may be used to qualify if the rental income can be documented with two years tax returns or a lease agreement due to the property being acquired after the most recent tax returns were filed.</p> <ul style="list-style-type: none"> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• For properties listed on Schedule E of the borrower's tax returns, net rental income should be calculated as the total of (Income + depreciation + interest + taxes + insurance + HOA (if applicable) divided by the applicable months minus the current PITI.               <ul style="list-style-type: none"> <li>○ If the subject property is the borrower's primary residence and generating rental income, the full PITI must be included in the borrower's total monthly obligations.</li> </ul> </li> <li>• If rental income is not available on the borrower's tax returns, a current executed lease agreement is required. Net rental income should be calculated as the gross monthly rent multiplied by 75%.</li> <li>• Net rental income must be added to the borrower's total monthly income. Net rental losses must be added to the borrower's total monthly obligations.</li> </ul>
Departing Residence	<p>When a borrower 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 under the following circumstances:</p> <ul style="list-style-type: none"> <li>• Sufficient Equity in Vacated Property:               <ul style="list-style-type: none"> <li>○ The borrower has an LTV, CLTV or HLTV of 70% or less as determined by a residential appraisal dated within 6 months.</li> <li>○ Full appraisal or exterior only appraisal allowed.</li> </ul> </li> </ul>

**Retirement Income**

Income Type	Required Documentation
Pension, Annuity, and IRA distributions	<ul style="list-style-type: none"> <li>• Fixed income payments such as social security or pension income can be used at full value/distribution and may not be considered in any annuitization calculation.</li> <li>• Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for the first three years of the loan               <ul style="list-style-type: none"> <li>○ Verification of the assets of the plan and verification of receipt of the distribution of at least six (6) months is required,</li> <li>○ Note: Distributions from asset accounts cannot be set up, or changed, solely for loan qualification purposes</li> </ul> </li> <li>• Asset distribution of all post closing liquid and retirement assets are acceptable for borrowers of retirement age or with retirement-like situations, i.e. sale of company, etc.               <ul style="list-style-type: none"> <li>○ Annuitization (depletion of assets) is calculated using a 3% return over the life of the loan. Use of this income calculation supersedes use of existing retirement distributions (exclusive of pension distributions) if those assets are considered in the calculation.</li> </ul> </li> </ul>
Asset Depletion/Dissipation	<p>Asset distribution of all post closing liquid and retirement assets are acceptable for borrowers of retirement age or with retirement-like situations, i.e. sale of company, etc.</p> <ul style="list-style-type: none"> <li>• Annuitization (depletion of assets) is calculated using a 3% return over the life of the loan. Use of this income calculation supersedes use of existing retirement distributions (exclusive of pension distributions) if those assets are considered in the calculation.</li> </ul>
Social Security Income	<p>Benefits (for children or surviving spouse) with a defined expiration date must have a remaining term of at least three years.</p> <p>Acceptable documentation may include a copy of the Social Security Administration's award letter, copies of the borrower's previous 12 months bank statements to confirm regular payment deposits, or signed personal tax returns from the prior two years.</p> <p>Non-taxable social security income may be grossed up by 115%.</p>

**Other Income**

Income Type	Required Documentation
Alimony, Separate Maintenance & Child Support Income	<ul style="list-style-type: none"> <li>• Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least the first three years of the loan three (3) years.</li> <li>• Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 12 months.</li> <li>• See non-taxable income for child support income treatment.</li> </ul>
Capital Gains	<p>Capital gains for like assets may be considered as effective income. The earnings trend or loss must be considered in the overall analysis of this income type. If the trend results in a gain, it may be added as effective income. If the trend consistently shows a loss, it must be deducted from the total income.</p> <ul style="list-style-type: none"> <li>• Tax returns for the prior three years, including Schedule D.</li> <li>• Gains must be consistent amounts from consistent sources.</li> <li>• Verified assets to support continuance must be documented.</li> </ul>
Dividend/Interest	<p>Interest and Dividend income may be used as long as documentation supports a two-year history of receipt.</p> <ul style="list-style-type: none"> <li>• Tax returns for the prior two years</li> <li>• Proof of asset(s) to support the continuation of interest and dividend income.</li> </ul>
Stock Options & Restricted Stock Grants	<p>May not be used as qualifying income</p>
Note Income	<ul style="list-style-type: none"> <li>• A copy of the Note must document the amount, frequency and duration of payments</li> <li>• Regular receipt of note income for the past 12 months must be documented, and evidence of note income must be reflected on tax returns.</li> <li>• Verification that income is expected to continue for the first three years of the loan</li> </ul>
Trust Income	<p>Income from trusts may be used if guaranteed and regular payments will continue for the first three years of the loan</p> <ul style="list-style-type: none"> <li>• Regular receipt of trust income for the past 12 months must be documented.</li> <li>• A copy of the Trust Agreement or Trustee Statement showing: <ul style="list-style-type: none"> <li>○ Total amount of borrower-designated trust funds</li> <li>○ Terms of payment</li> <li>○ Duration of trust</li> <li>○ Portion of income that is not taxable</li> </ul> </li> <li>• Non-taxable trust income must include proof of distribution.</li> </ul>
Foreign Income	<p>Foreign income may be used only if its stability and continuance can be verified.</p> <ul style="list-style-type: none"> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current period at the time of application.</li> <li>• All income must be converted to U.S. currency.</li> </ul> <p>Note: Foreign Earned Self Employment Income is not acceptable</p>
Non-Taxable Income including child support, disability, foster care, military, etc.	<ul style="list-style-type: none"> <li>• Documentation must be provided to support continuation of income for a minimum of three (3) years.</li> <li>• Income may be grossed up by 115% for income qualification purposes. Tax returns must be provided to confirm income is non-taxable.</li> </ul>
Trailing Co-borrowers	<p>Income from trailing co-borrowers will not be considered.</p>

**Unacceptable Income**

Unacceptable income sources include, but are not limited to	<ul style="list-style-type: none"> <li>• Any unverified source</li> <li>• Income that is temporary or a one-time occurrence</li> <li>• Rental income received from the borrower's single family primary residence or second home.</li> <li>• Retained earnings</li> <li>• Education benefits</li> </ul>
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- Income with a defined expiration date must continue for at least the first three years of the mortgage.
- IRS 4506-T is required for all loans. The 4506-T must be executed to validate all income used for qualifying prior to closing and acceptable results must be returned from the IRS prior to receiving a Clear to Close.
  - In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found". In these cases, an additional prior year's tax transcript should be obtained. Large increases in income that cannot be validated through the tax transcript may only be considered for qualifying on a case by case basis.
  - In the case where taxes for the prior year have not been filed (between January 1 and the tax filing date (typically April 15) the following are required:
    - IRS form 1099 and W-2 forms from the previous year.
    - Loans closing in January prior to receipt of W-2's may use the prior year year-end paystub. For borrowers using 1099's, evidence of receipt of 1099 income must be provided.
  - Between the tax filing date and the extension expiration date (typically October 15), the following are required (as applicable):
    - Copy of the filed extension.
    - W-2 forms for corporations
    - Form 1099 for commission income.
    - Current year profit & loss (signed by the borrower).
    - Year-end profit and loss for prior year (signed by the borrower).
    - Balance sheet for prior calendar year if business is a sole proprietorship.
  - After the extension expiration date, loan is not eligible without prior year tax returns.
- Verbal VOE to be performed by the underwriter prior to closing using Flagstar's *Verbal Verification of Employment*, [Doc.# 3240](#) or if self-employed, an independent written confirmation of self-employment is required (i.e., copy of business license reflecting ownership of company, corporate minutes, etc.). Two continuous years of self-employment in same business are required.
- Verbal VOE must be completed within 10 business days of closing. All loans must provide verbal verification of employment at the time of requesting funds.

**ASSETS**

- Funds must be from the borrower's own resources. Business funds may be used for down payment and/or closing costs but cannot be used in reserve calculation. Cash flow analysis required using 3 months business bank statements to determine no negative impact to business based on withdrawal of funds. Funds must be available to the borrower prior-to and after closing. Proceeds from the transaction (i.e. refinance proceeds, etc.) or sale of assets may not be used to meet cash reserves requirements. Documentation may not be more than 90 days old at the time of close.
- Reserve requirements are based off LTV/CLTV/HCLTV and loan amount. See the Reserves section for additional requirements.

- All EMD funds must be verified. If EMD reflected on 1003 is different than the EMD disclosed on the PA, the underwriter will require verification of those funds.
- In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.

### APPRAISAL REQUIREMENTS

Loan Amount	Appraisal Requirement
Up to \$1,000,000	One Full Appraisal
\$1,000,001 – \$3,000,000	Two Full Appraisals
All properties For Sale By Owner (FSBO)	

- Appraisal is required on the applicable standard Fannie Mae form #1004 (Rev. 5/2005). All 2-Unit properties must be submitted on Form #1025. All condominiums must be submitted on Form #1073 (Rev. 5/2005). No other limited appraisals (including Form #2055, 2095 and 1075) will be accepted.
- Interior photos must be included. Must include photos of the kitchen, bathrooms, bedroom and living room/family room.
- Appraiser must address current MLS listing price and history in the report.
- If transaction includes seller concessions the appraiser must include comps that had seller concessions.
- Escrow holdbacks are not eligible.
- Appraisals identified as being located in a declining market should be given additional scrutiny to ensure the value is supported by the most recent sales and market data and that all of the appraiser comments are taken into consideration.
- A minimum of three comparable sales (must be actual closed sales).
- For properties within a condominium or PUD project at least one comparable sale that is outside the development must be provided.
- Appraisals must be dated within 120 days from date Note is signed. After the 120 day period a new appraisal will be required. Re-certification of value is not acceptable.
- The appraisal must analyze and report in reasonable detail the sales history for the past 36 months for the subject property and the last 12 months for any comparable sales used in the report.
- The appraisal must analyze any current purchase agreement, option or listing for the subject property within the last 12 months.
- The broker or correspondent is responsible for ensuring that the appraisal vendor is made aware of the requirements of this program when placing their order. Flagstar will not request enhancements to reports that do not meet program guidelines, nor be responsible for any fees incurred to update an appraisal report to comply with these requirements.
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, the following requirements apply
  - Second Appraisal
  - Property seller on the purchase contract is the owner of the record
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.

All appraisals for loans under this product must be reviewed by a third party. Please allow additional time for loan approval.

Broker and non-AIR compliant Correspondent appraisals must be ordered through Loantrac and will be eligible from any approved AMC listed in *Appraisal Management Companies*, [Doc #4903](#).

AIR compliant Correspondent appraisals must meet the following guidelines.

- Additional requirements when one appraisal is required:
  - Appraisal is not required to be ordered from one of our approved AMCs.
  - Upon appraisal review discretion, a review appraisal or a full appraisal from one of our approved AMCs may be required at the customer's expense. It will be the responsibility of the customer to place the order.
- Additional requirements when two appraisals are required:
  - Two separate appraisal orders are required. However, appraisals may be completed from the same AMC.
  - Only one appraisal is required to be ordered from one of our approved AMCs.
  - The loan to value will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection and/or recertification of value must be for the appraisal with the lower value.
  - The underwriter must review both appraisal reports and address any inconsistencies between the two reports and all discrepancies must be reconciled.

The following are approved Appraisal Management Companies (AMCs):

- iMortgage
- StreetLinks
- PCV Murcor
- Old Republic

**SURVEY REQUIREMENTS**

If title work/purchase agreement requires a survey, a copy must be provided.

Survey exceptions on title render a loan ineligible for purchase. Any encroachment or restriction violations mentioned in the title policy must have insuring language.

If any survey includes an exception or encroachment the final title policy must include an ALTA 9 endorsement.

LENDER/SELLER CREDITS

No restitutions are allowed. Lender/seller credits must be itemized when requesting funds.

TEXAS REFINANCE LOANS

All refinance loans in Texas will be evaluated against the criteria outlined in our *Conventional Underwriting Guidelines, Texas Refinances* section to determine if the loan must be originated under the requirements of Section 50(a)(6) of the Texas Constitution. Texas refinance loans that must close under Section 50(a)(6) requirements are not eligible.

**STATE ELIGIBILITY**

Available with the following geographic restrictions

State	Restriction
Hawaii	Appraisal must indicate whether property is located in a lava flow zone as defined by the United States Geological Survey. Properties located in a lava flow zone 1 or 2 are not eligible.
Puerto Rico	Not eligible
Texas	Texas refinance loans that must close under Section 50(a)(6) requirements are not eligible. Refer to the <a href="#">Texas Refinance Loans</a> section for details.
US Virgin Islands	Not eligible

**PREPAYMENT PENALTY**

None

**CLOSING DOCUMENTATION**

Closing docs may be ordered through Flagstar's Web-Based Closing Docs (WBCD) service available on Loantrac.

FIXED RATE LOANS:

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series.
- Fannie Mae/Freddie Mac multi-state Fixed Rate Note, 3200-series.
- Standard title commitment with all applicable endorsements.

IF APPLICABLE

- Fannie Mae/Freddie Mac multi-state Condo Rider, Form #3140
- Fannie Mae/Freddie Mac Multi-state PUD Rider, Form #3150
- Fannie Mae/Freddie Mac multi-state 1-4 Family Rider, Form #3170 (2-Unit primary residence)
- Fannie Mae-Freddie Mac multi-state Second Home Rider, Form #3890

Refer to Flagstar's [All Memos Search](#) page for memos relating to recent guidelines changes.



## Jumbo 5/1 & 7/1 ARMs

PRIMARY RESIDENCE – PURCHASE					
Property Type	Maximum <sup>1</sup> LTV	Maximum <sup>1</sup> CLTV/HCLTV	Minimum Loan Amount	Maximum <sup>1</sup> Loan Amount	Minimum Credit Score
1-Unit PUD Condo	90%	No Subordinate Financing	\$417,001	\$650,000	700
			\$650,001	\$800,000	740
	80%	80%	\$417,001	\$1,500,000	700
				\$2,000,000	700
				\$2,500,000	720
70%	70%	\$3,000,000		740	
		1-Unit PUD		70%	70%
2-Unit <sup>2</sup>	65%	65%	\$417,001	\$1,500,000	720
	60%	60%			

PRIMARY RESIDENCE – RATE/TERM REFINANCE					
Property Type	Maximum <sup>1</sup> LTV	Maximum <sup>1</sup> CLTV/HCLTV	Minimum Loan Amount	Maximum <sup>1</sup> Loan Amount	Minimum Credit Score
1-Unit PUD Condo	90%	No Subordinate Financing	\$417,001	\$650,000	700
			\$650,001	\$800,000	740
	80%	80%	\$417,001	\$1,000,000	700
				\$1,500,000	700
				\$2,000,000	720
70%	70%	\$2,500,000		720	
		1-Unit PUD		70%	70%
2-Unit <sup>2</sup>	65%	65%	\$417,001	\$1,000,000	700
	60%	60%		\$1,500,000	720

PRIMARY RESIDENCE – CASH-OUT REFINANCE						
Property Type	Maximum LTV	Maximum CLTV/HCLTV	Minimum Loan Amount	Maximum Loan Amount	Maximum Cash-Out	Minimum Credit Score
1-Unit PUD Condo	65%	65%	\$417,001	\$1,000,000	\$250,000	700
	60%	60%		\$1,500,000		720
	55%	55%		\$2,000,000	\$500,000	720
	45%	45%		\$2,500,000		720

SECOND HOME – PURCHASE AND RATE/TERM REFINANCE					
Property Type	Maximum <sup>1</sup> LTV	Maximum <sup>1</sup> CLTV/HCLTV	Minimum Loan Amount	Maximum <sup>1</sup> Loan Amount	Minimum Credit Score
1-Unit PUD Condo	75%	75%	\$417,001	\$1,000,000	720
	70%	70%		\$1,500,000	
	65%	65%		\$2,000,000	
	50%	50%		\$2,500,000	

1. Virgin Island properties limited to 65% maximum LTV/CLTV and \$1,500,000.00 maximum loan amount.
2. Virgin Island 2-unit properties limited to 60% maximum LTV/CLTV.

### PROGRAM SUMMARY

The Jumbo product is a mortgage loan program offering ARM products allowing for jumbo loan balances.

### PRODUCTS OFFERED

Product Name	Loan Term	ARM Disclosure
Jumbo 5/1 LIBOR ARM	30 years	<a href="#">Doc. #3382</a>
Jumbo 7/1 LIBOR ARM	30 years	<a href="#">Doc. #3382</a>

### ELIGIBLE BORROWERS

- U.S. Citizens
- Lawful resident aliens are eligible for the same financing as U.S. citizens if they can provide evidence of lawful residency and they meet all of the same credit standards as U.S. citizens.
  - A copy of the borrower's identification is required to verify review of the acceptable documentation that evidences borrower is eligible to lawfully reside in the U.S.
    - Must have a valid Green Card, evidence of continuous for at least 12 months.
    - Borrower must be employed in the U.S. for the last 24 months.
    - Income must be likely to continue for at least 3 years.
- First Time Home Buyer (FTHB) - see UNDERWRITING for further requirements.
  - Any borrower who has had previous home ownership is not considered a FTHB.

### INELIGIBLE BORROWERS

- Non-resident aliens (foreign nationals)
- Non-permanent resident aliens
- All trusts
- Land trusts, except for Illinois Land Trust
- Non-occupant co-borrowers
- Limited partnerships, general partners or corporations
- Non-arms-length transactions – See TRANSACTION TYPES for further requirements.

### ELIGIBLE PROPERTY TYPES

- 1 to 2-Unit properties
- Fannie Mae warrantable low, mid and high-rise condos
- Planned unit development (PUD)
- Leaseholds
- Properties with up to 20 acres
- For properties >10 to 20 acres
  - Maximum 35% land to value
  - No income producing attributes

### WARRANTABLE CONDOMINIUMS

- FNMA Types R & S. (Type R eligible with CPM or PERS approval, not eligible in FL)
- Site-condos (must be detached)
- Each condominium project must be reviewed and approved by Flagstar's Condo Review Department. Current Flagstar approved condo list is not eligible. All Projects must be re-reviewed. Refer to *Condominium Submission Instructions*, [Doc. #3253](#) for details.
- Limited review is not eligible.

The underwriter to obtain CPM confirmation to be placed in loan file.

### SITE CONDO REQUIREMENTS

When the underwriter performs a review for a mortgage secured by a detached unit in a condo project, the following eligibility criteria must be met:

<b>Review Eligibility Criteria for Detached Condo Units</b>
The mortgage is secured by a single detached unit in a condo project.
The mortgage is not secured by a manufactured home.
The project is not an ineligible project. (See <a href="#">Conventional Underwriting Guidelines</a> .)
The appraiser commented on, and reflected in the appraisal report, any effect that buyer resistance to the condo form of ownership has on the market value of the individual unit.
If the condo project is new, the appraiser used as a comparable sale at least one detached condo unit, which may be located either in a competing project or in the subject project, if the condo unit is offered by a builder other than the one that built the subject unit.

### **INELIGIBLE PROPERTY TYPES**

- 3 to 4-Unit properties
- Manufactured/mobile homes
- Modular homes
- Condo-hotel units
- Unique properties
- Log homes
- Co-ops
- Working farms, ranches or orchards
- Mixed-use properties
- Income producing properties with acreage
- Properties subject to oil and/or gas leases.

### **LOAN AMOUNTS**

Minimum: \$417,001

Maximum: Refer to [Eligibility Grids](#) above.

### **SECTION 32 – HIGH-COST LOANS**

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

### **TRANSACTION TYPES**

#### NON-ARMS LENGTH TRANSACTIONS

Any transaction where there is a relationship or business affiliation between the buyer, seller, loan agent, or originator in the transaction is considered non-arms length. Non-arms length transactions also include, but are not limited to:

- Applicants related by blood or marriage to the seller.
- Owners, employees or family members of originating broker.
- Builder/developers.
- Renters buying from landlord.

- Trading properties with a seller.

Non-arms length transactions are not eligible for financing under this product with the exception of the following:

- Approved Flagstar Bank builder owned mortgage companies when the builder is the property seller.
- Property sellers are representing themselves as agent in real estate transaction
- Buyers/Borrowers are representing themselves as agent in real estate transaction.

### REFINANCE TRANSACTIONS

All Refinance transactions require the completion of a *Net Tangible Benefit Worksheet*, [Doc. #3920](#). It must be completed and in the file at the time of submission. Supporting documentation is required to be in the loan file to verify the information entered onto the Net Tangible Benefit Worksheet. Verification documents from the existing lien may include:

- Copy of Note(s) from existing lien(s)
- Payment coupon
- Payoff statement
- Final TIL

Properties that have been listed for sale within 12 months of loan application are not eligible for any refinance transaction.

Construction loans are not eligible.

### RATE/TERM REFINANCE LOANS

- The new loan amount is limited to the payoff of the present first mortgage and
- Any Seasoned non-first lien mortgage, closing costs and prepaids and
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for 12 months. A seasoned equity line is defined as not having any draws greater than \$2,000 in the past 12 months. Withdrawal activity must be documented with a transaction history for the Line of Credit.
- Cash to borrower is limited to the lesser of 1% of the principal amount of the new mortgage or \$2,000.

### CASH-OUT REFINANCE LOANS

- Cash out limitation is waived when the previous transaction is a purchase and the proceeds for the subject loan will be used to pay off or pay down a pledged asset or retirement account loan used to purchase the subject property. Maximum loan amounts as indicated in the eligibility grid are still applicable.
- HUD-1 settlement statement must reflect payoff or pay down of pledged asset loan or retirement account loan. If cash out proceeds exceed payoff of loans, excess cash must meet the cash out limits.
- Borrower must have owned property for at least six months prior to the application date unless requirements for Delayed Purchase Refinance are met.
- **If an unseasoned, non-purchase money second is being paid off, both the loan and the amount of the 2<sup>nd</sup> mortgage will be included in the cash out limitation.**

### DELAYED PURCHASE REFINANCE LOANS

Defined as the refinance of a property purchased by the borrower for cash within 6 months of loan application. Transaction is eligible if it meets the following criteria:

- Underwritten as a rate & term refinance

- Primary residence
- Obtain HUD-1 from original purchase
- Document that the purchase funds were from the borrower's own funds and that there was not any borrowing, gifts or shared funds.
- Funds secured by a pledged asset or retirement account are not considered to be from the borrower's own funds and must be considered a cash out transaction.

### CALCULATING LTV/CLTV/HLTV

#### PURCHASE LOANS

Lesser of the current appraised value or acquisition cost.

#### REFINANCE LOANS

- If borrower has less than 12 months ownership in the property, LTV/CLTV/HCLTV is calculated from the lesser of the purchase price or appraised value.
  - Properties where capital improvements have been made after purchase, the LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or the purchase price plus documented improvements (file must contain receipts).
- If the borrower has owned the property for more than 12 months the LTV/CLTV/HCLTV is based on the appraised value.

#### CONSTRUCTION-TO-PERMANENT

- If the lot was acquired 12 or more months prior to the construction financing, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
- If the lot was acquired less than 12 or more months prior to the construction financing the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and the lower of the sales price or the current appraised value of the lot).

### PROPERTY VALUES

Extreme care must be applied to insure that the appraiser is specific with regard to the impact the market decline has upon the transaction being evaluated. Typically, appraisals should not contain comparables greater than six months old at time of underwriting review. Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible.

Flagstar reserves the right to establish guidelines based on current market conditions when conditions suggest an increased risk in property values.

### MINIMUM CREDIT SCORE

Refer to [Eligibility Grids](#) above. No exceptions to credit score requirements.

### QUALIFYING RATE

5/1 ARM	7/1 ARM
Greater of the fully-indexed rate or Note rate plus 2%	Greater of the fully-indexed rate or Note rate

**QUALIFYING RATIOS**

- Maximum 43% debt-to-income ratio
- Loan amounts greater than \$650,000 and LTV greater than 80% - Maximum 41% debt-to income ratio

There are no exceptions to DTI requirements

Liabilities include all housing expenses, revolving debt, installment debts, real estate loans, rent, alimony, child support, and other consistent and recurring expenses.

Stock pledges and any loan payment associated with the pledge account will not be included in the DTI calculation.

For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.

**RESERVES**

Occupancy	Loan Amount	Required Reserves <sup>3, 4, 5</sup>
Primary Residence	Up to \$1,000,000	9 months, verified PITI
	\$1,000,001 – \$1,500,000	12 months, verified PITI
	\$1,500,001 – \$2,000,000	15 months, verified PITI
	\$2,000,001 - \$2,500,000	27 months, verified PITI
	\$2,500,001 - \$3,000,000	30 months, verified PITI
Second Home	Up to \$1,000,000	15 months, verified PITI
	\$1,000,001 – \$1,500,000	21 months, verified PITI
	\$1,500,001 – \$2,000,000	27 months, verified PITI
	\$2,000,001 - \$2,500,000	39 months, verified PITI
	\$2,500,001 - \$3,000,000	42 months, verified PITI

3. In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.
4. When borrowers have financed properties in addition to the subject property, an additional 6 months PITI reserves are required for each property.
5. Business funds are not allowed for the purpose of calculating reserves.

**SUBORDINATE FINANCING**

- Only institutional financing up to the maximum LTV/CLTV/HCLTV is eligible.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- Full disclosure must be made on the existence of subordinate financing and the repayment terms.
- Acceptable subordinate financing types:
  - Mortgages with regular payments that cover the interest due so negative amortization does not occur.
  - Mortgage terms that require interest at a market rate.
  - Seller subordinate financing not eligible.

### INTERESTED PARTY CONTRIBUTIONS

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment.

CLTV/HCLTV	IPC Allowance
75.01% – 80%	3%
≤ 75%	6%

All seller concessions must be addressed in the sales contract documents, loan application, appraisal report, and the HUD-1. If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV/HCLTV.

In cases where the appraisal does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, the underwriter must make a downward adjustment to the appraised value of the mortgaged property to reflect the cost of the contribution. The revised LTV is based on the lesser of the appraised value or reduced sales price.

### CONTINUITY OF OBLIGATION

Refer to [Conventional Underwriting Guidelines](#), *Continuity of Obligation* section.

### SOURCE OF FUNDS

Borrower must contribute at least 10% toward the transaction from their own funds for purchase transactions. See the [Gift Funds](#) section for additional information.

#### GIFT FUNDS

- The donor must be an immediate family member or domestic partner (domestic partner donors must live with borrower). (All large deposits in donor's account within 60 days must be sourced)
- Executed gift letter is required
- Transfer of funds or evidence of receipt must be documented prior to close.
- Acceptable after a minimum 10% down payment has been made by the borrower from their own resources.
- Gift funds may not be used to meet reserve requirements.

### TEMPORARY BUYDOWNS

Not eligible

### AUS RESPONSE

Jumbo ARM loans are manually underwritten and are not eligible for AUS submission.

### UNDERWRITING

All guidelines not addressed below must meet the parameters documented in our [Conventional Underwriting Guidelines](#).

Third Party Originations are not eligible. All new construction property loans must have a Certificate of Occupancy.

### UNDERWRITING SUBMISSIONS

- The Jumbo Underwriting department in Troy, MI or Bellevue, WA will underwrite all loans. Delegated/Elite underwriting is not eligible.
- Submission of compliance documents will be a prior to close condition (i.e. initial application, TIL, GFE, ARM disclosure, and Net tangible benefit worksheet). All documents must be completed in full, signed and dated.
- Purchase agreements must be completely executed by all parties and include all pages
- Title policy for file must include a 24 month chain of title.
- Loan/Property Restrictions per Borrower:
  - Borrowers will be limited to a maximum number of 2 Jumbo Loans per borrower at any time.
  - A borrower may not have more than ten residential properties financed. Joint ownership in residential real estate is considered the same as total ownership and is subject to the same restriction.
- All loans must contain the following documentation prior to submission to Underwriting:
  - Completed 1003.
  - Complete income documentation.
  - Complete asset documentation.
  - Title work. Commitment may not be more than 90 days from date Note is signed.
  - All applicable initial disclosure, fully executed within appropriate timeframes.
  - Purchase agreement/sales contract, if applicable.
- All refinance transactions must have the appraisal at the time the loan is submitted to Underwriting. The loan will be placed in a *Loan not Underwritten* status if the appraisal is not received at the time of submission.

### PROPERTY OWNERSHIP HISTORY

Underwriting will take into consideration the number of properties owned and the length of time the properties have been owned. Investors who demonstrate a rapid acquisition (acquired within the most recent 24-month period) of investment properties will be reviewed cautiously. Underwriting reserves the right to request documentation to evidence the borrower had the funds required to purchase any property acquired within the last 24 months and/or sufficient verified asset to provide adequate reserves for the investment portfolio.

### FIRST TIME HOME BUYER (FTHB)

- Eligible on primary residence only
- Eligible with 12 months reserves
- Maximum loan amount of \$1,000,000

### CREDIT REQUIREMENTS

- All loans must have a fully executed *Social Security Number Verification*, [Doc. #3257](#) with results obtained, prior to close. Underwriter to obtain results.
- Credit report must be a tri-merge credit report or an RMCR. Every submitted credit bureau report must include the full name, address and social security number of each borrower. If any of this information is inconsistent with that on any document in the file, a new report and/or explanation will be required.
- Credit reports may not be more than 90 days from date Note is signed.

- The underwriter must verify that each account on the credit report with a balance has been checked within 90 days of the date of the credit report.
- Current mortgage payment history within 30 days will be required if not reflected on the credit report.
- Underwriter will require borrower to provide a written explanation for any credit inquiries in the last 120 days.
- Credit Score – Use lower of 2 or middle of 3 to determine each borrower’s representative score. Each borrower must have at least 2 scores.
- A valid usable credit score is one that is generated based on a minimum of 4 tradelines (installment, revolving accounts, mortgages, etc.), one of which has been open a minimum of 24 months, the other three for at least 12 months and accurately reflecting the borrower’s credit history. Tradelines must be open, but do not have to reflect a current balance. At least one installment tradeline rated for 12 months is required within the past 36 months.
- If there are less than 4 tradelines, or the trade lines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior, even if the report includes a credit score.
- An acceptable tradeline is one from a traditional credit source. Alternative credit trades or such items as collections, charge-offs, “authorized user” accounts, deferred loans with no payment history, or transferred accounts are all considered unacceptable tradelines.
- Any revolving tradeline without a minimum payment amount listed on the credit report will use \$10 or 5% of the outstanding balance, whichever is greater. All deferred student loan payments must be documented.
  - If the borrower’s ratios are at the maximum permitted the underwriter should obtain actual minimum payments from the borrower’s account statements to qualify.
- Credit in accordance with below listed guidelines is required (In addition to the minimum credit score) on all files.
- All past due accounts must be brought current prior to closing.
- Mortgage late payments within the past 24 months are not allowed.
- All judgments and tax liens must be paid prior to closing.
- Collections over \$250 individually or \$1,000 aggregate, must be paid.
- Major derogatory should be evaluated against the borrower’s overall credit in the last 24 months and reflect a willingness and capacity to repay. Paying off revolving outstanding debt to qualify is allowed. Paying down of revolving debt to qualify is unacceptable. Payoffs on a refinance transaction must be reflected on the HUD-1 Settlement Statement. On purchase transactions, any loans requiring pay off must be paid off prior to closing and source of funds to do so must be documented. Gift funds are not a viable source of funds to pay off debt to qualify.
- Any disputed accounts must be resolved prior to closing.
- The following require a written explanation from the borrower:
  - Late Payments
  - Derogatory Credit
- Borrowers with a foreclosure in their credit history are not eligible for financing.
- Borrowers with a bankruptcy in their credit are not eligible for financing.
- Borrowers who have had a loan modification or surrendered a property through a Short Sale or Deed-In-Lieu are not eligible for financing.

**CREDIT STANDARDS**

<b>Tradelines</b> <sup>6</sup>	Minimum 4 open trade lines. One must be open and active for 24 months and remaining 3 must be rated for 12 months
<b>Authorized User Accounts</b>	Not allowed and are not acceptable forms of credit
<b>Mortgage/Rent</b>	0 x 30 in past 24 months (No exceptions)
<b>Installment Debt</b>	At least one installment tradeline rated for 12 months is required within the past 36 months
<b>Revolving Debt</b>	See tradeline requirements for details
<b>Bankruptcy</b>	Not eligible
<b>Foreclosure</b>	Not eligible

6. All tradelines must have activity within this time frame.

**EMPLOYMENT AND INCOME**

- Income, employment and assets are stated and verified. Documentation may not be more than 90 days from date Note is signed.
- Borrowers must have two years consistent employment with the same employer or in the same industry.
- Standard FNMA full documentation is required (2 years W2s and current pay stub, etc.). Pay stubs must be computer generated. Handwritten pay stubs require a borrower to provide tax returns and all schedules.
- The following income documentation must be provided for each borrower whose income is used to qualify:

<b>Employment Income</b>	
<b>Income Type</b>	<b>Required Documentation</b>
Salaried	<p>An earnings trend must be established and documented. Large increases in salary over the previous two years must be explained and documented.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> <li>• If borrower is claiming overtime pay, it must be shown on the YTD pay stub.</li> </ul>
Hourly & Variable Income	<p>An earnings trend must be established and documented. Stable to increasing income should be average over a minimum two year period. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. Declining income must be explained by the employer/borrower and a written determination by the underwriter must be provided if declining income is used for qualifying.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>

Employment Income	
Income Type	Required Documentation
Part-Time Income	<p>Borrower must have worked the part-time job uninterrupted for the past two years, and plans to continue. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. If the part-time income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application</li> </ul>
Commission	<p>Commission income must be averaged over the previous two years. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. If the commission income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years if commissions are less than 25% of the total income.</li> <li>• Tax returns, including all schedules, and W-2 form from the previous two years if commissions are <math>\geq</math> 25% of the total income.</li> <li>• Unreimbursed business expenses (form 2106) must be subtracted from income.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>
Overtime & Bonus	<p>An earnings trend for bonus and overtime must be established and documented. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. If either type of income shows a continual decline, income should not be used.</p> <ul style="list-style-type: none"> <li>• W-2 forms for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current pay period at the time of application.</li> </ul>
Returning to Work After an Extended Absence	<p>For a Borrower who has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history. School transcripts must be provided to document.</p> <p>A borrower's income may be considered effective and stable when recently returning to work after an extended absence if he/she:</p> <ul style="list-style-type: none"> <li>• Is employed in the current job for six months or longer; and</li> <li>• Can document a two year work history prior to an absence of employment using:             <ul style="list-style-type: none"> <li>○ Traditional employment verifications; and/or</li> <li>○ W2 forms, for prior 2 years</li> </ul> </li> </ul>
Employment Gaps	<p>The borrower must provide a detailed two-year employment history including a written explanation for any gaps in employment that span one or more months. The underwriter must determine that any gaps do not affect employment stability. Gaps in employment due to the borrower attending training or schooling for a specific profession must be documented with diploma, transcripts, etc....</p>

Employment Income	
Income Type	Required Documentation
Borrower's planning to retire within the first three-year period of the mortgage	<p>Effective income for borrower's planning to retire during the first three-year period must include the amount of:</p> <ul style="list-style-type: none"> <li>• Documented retirement benefits;</li> <li>• Social Security payments; or</li> <li>• Other payments expected to be received in retirement</li> </ul>
Self-Employed Income	<p>Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. When declining income has occurred, the most recent 12 months should be used. In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.</p>
Borrower Employed by Family Member	<p>Borrowers who are employed by a family member are considered to be self-employed, regardless of the percentage of ownership, and self-employed documentation is required. Potential ownership by the borrower must be addressed. The underwriter must clarify potential ownership by the borrower. A borrower may be an officer of a family operated business but not an owner.</p> <ul style="list-style-type: none"> <li>• Written verification of the borrower's status should be obtained by written confirmation from an accountant or legal counsel.</li> <li>• Borrowers must provide the preceding two years signed, dated individual and business (if applicable) tax returns, with all supporting schedules</li> <li>• YTD pay stub up through and including the most current pay period at the time of application.</li> <li>• W-2 forms, for prior two years</li> </ul>
Sole Proprietorship	<ul style="list-style-type: none"> <li>• Current YTD P&amp;L through the most recent quarter.</li> <li>• YTD balance sheet through the most recent quarter.</li> <li>• Personal tax returns, including all schedules, for prior two years.</li> </ul> <p>Note: only depreciation and depletion may be added back.</p>
Partnerships (General, Limited) Limited Liability Companies, "S" Corporations Corporations	<ul style="list-style-type: none"> <li>• Current YTD P&amp;L through the most recent quarter.</li> <li>• YTD balance sheet through the most recent quarter.</li> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• K-1s from prior two years, showing ownership percentage. K-1s are not required if the source is reporting positive income and the income is not used for qualification. If K-1s show a loss, they are required, regardless if they are used for qualifying purposes. If using capital gains, interest/dividend or W2 income from this source is used, K-1s are required.</li> <li>• Business tax returns (1065/1120), including all schedules, for the prior two years are required if the borrower has an ownership percentage <math>\geq 25\%</math>; they are not required if reporting positive income via a K-1, and the income is not used for qualification purposes.</li> </ul>

<b>Rental Income</b>	
<b>Income Type</b>	<b>Required Documentation</b>
All properties	<p>Rental income may be used to qualify if the rental income can be documented with two years tax returns or a lease agreement due to the property being acquired after the most recent tax returns were filed.</p> <ul style="list-style-type: none"> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• For properties listed on Schedule E of the borrower's tax returns, net rental income should be calculated as (Income + depreciation + interest + taxes + insurance + HOA (if applicable) divided by the applicable months minus the current PITI.               <ul style="list-style-type: none"> <li>○ If the subject property is the borrower's primary residence and generating rental income, the full PITI must be included in the borrower's total monthly obligations.</li> </ul> </li> <li>• If rental income is not available on the borrower's tax returns, a current executed lease agreement is required. Net rental income should be calculated as the gross monthly rent multiplied by 75%.</li> <li>• Net rental income must be added to the borrower's total monthly income. Net rental losses must be added to the borrower's total monthly obligations.</li> </ul>
Departing Residence	<p>When a borrower 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 under the following circumstances:</p> <ul style="list-style-type: none"> <li>• Sufficient Equity in Vacated Property:               <ul style="list-style-type: none"> <li>○ The borrower has an LTV, CLTV or HLTV of 70% or less as determined by a residential appraisal dated within 6 months.</li> <li>○ Full appraisal or exterior only appraisal allowed.</li> </ul> </li> </ul>

<b>Retirement Income</b>	
<b>Income Type</b>	<b>Required Documentation</b>
Pension, Annuity, and IRA distributions	<ul style="list-style-type: none"> <li>• Fixed income payments such as social security or pension income can be used at full value/distribution and may not be considered in any annuitization calculation.</li> <li>• Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for the first three years of the loan               <ul style="list-style-type: none"> <li>○ Verification of the assets of the plan and verification of receipt of the distribution of at least six (6) months is required, Note: Distributions from asset accounts cannot be set up, or changed, solely for loan qualification purposes</li> </ul> </li> </ul>
Asset Depletion/Dissipation	<p>Asset distribution of all post closing liquid and retirement assets are acceptable for borrowers of retirement age or with retirement-like situations, i.e. sale of company, etc.</p> <ul style="list-style-type: none"> <li>• Annuitization (depletion of assets) is calculated using a 3% return over the life of the loan. Use of this income calculation supersedes use of existing retirement distributions (exclusive of pension distributions) if those assets are considered in the calculation.</li> </ul>

### Retirement Income

Income Type	Required Documentation
Social Security Income	<ul style="list-style-type: none"> <li>Benefits (for children or surviving spouse) with a defined expiration date must have a remaining term of at least three years.</li> <li>Acceptable documentation may include a copy of the Social Security Administration's award letter, copies of the borrower's previous 12 months bank statements to confirm regular payment deposits, or signed personal tax returns from the prior two years.</li> <li>Non-taxable social security income may be grossed up by 115%.</li> </ul>

### Other Income

Income Type	Required Documentation
Alimony, Separate Maintenance & Child Support Income	<ul style="list-style-type: none"> <li>Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least the first three years of the loan three (3) years. Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 12 months.</li> <li>See non-taxable income for child support income treatment.</li> </ul>
Capital Gains	<p>Capital gains for like assets may be considered as effective income. The earnings trend or loss must be considered in the overall analysis of this income type. If the trend results in a gain, it may be added as effective income. If the trend consistently shows a loss, it must be deducted from the total income.</p> <ul style="list-style-type: none"> <li>Tax returns for the prior three years, including Schedule D.</li> <li>Gains must be consistent amounts from consistent sources.</li> <li>Verified assets to support continuance must be documented.</li> </ul>
Dividend/Interest	<p>Interest and Dividend income may be used as long as documentation supports a two-year history of receipt.</p> <ul style="list-style-type: none"> <li>Tax returns for the prior two years</li> <li>Proof of asset(s) to support the continuation of interest and dividend income.</li> </ul>
Stock Options & Restricted Stock Grants	May not be used as qualifying income.
Note Income	<ul style="list-style-type: none"> <li>A copy of the Note must document the amount, frequency and duration of payments</li> <li>Regular receipt of note income for the past 12 months must be documented, and evidence of note income must be reflected on tax returns.</li> <li>Verification that income is expected to continue for the first three years of the loan</li> </ul>
Trust Income	<p>Income from trusts may be used if guaranteed and regular payments will continue for the first three years of the loan</p> <ul style="list-style-type: none"> <li>Regular receipt of trust income for the past 12 months must be documented.</li> <li>A copy of the Trust Agreement or Trustee Statement showing: <ul style="list-style-type: none"> <li>Total amount of borrower-designated trust funds</li> <li>Terms of payment</li> <li>Duration of trust</li> <li>Portion of income that is not taxable</li> </ul> </li> <li>Non-taxable trust income must include proof of distribution.</li> </ul>

Foreign Income	<p>Foreign income may be used only if its stability and continuance can be verified.</p> <ul style="list-style-type: none"> <li>• Personal tax returns, including all schedules, for prior two years.</li> <li>• Year-to-date pay stub up through and including the most current period at the time of application.</li> <li>• All income must be converted to U.S. currency.</li> </ul> <p>Note: Foreign Earned Self Employment Income is not acceptable.</p>
Non-Taxable Income including child support, disability, foster care, military, etc.	<ul style="list-style-type: none"> <li>• Documentation must be provided to support continuation of income for a minimum of three (3) years.</li> <li>• Income may be grossed up by 115% for income qualification purposes. Tax returns must be provided to confirm income is non-taxable.</li> </ul>
Trailing Co-borrowers	Income from trailing co-borrowers will not be considered.

Unacceptable Income	
Unacceptable income sources include, but are not limited to	<ul style="list-style-type: none"> <li>• Any unverified source</li> <li>• Income that is temporary or a one-time occurrence</li> <li>• Rental income received from the borrower's single family primary residence or second home.</li> <li>• Retained earnings</li> <li>• Education benefits</li> </ul>

- Income with a defined expiration date must continue for at least the first three years of the mortgage.
- IRS 4506-T is required for all loans. The 4506-T must be executed to validate all income used for qualifying prior to closing and acceptable results must be returned from the IRS prior to receiving a Clear to Close.
  - In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found". In these cases, an additional prior year's tax transcript should be obtained. Large increases in income that cannot be validated through the tax transcript may only be considered for qualifying on a case by case basis.
  - In the case where taxes for the prior year have not been filed (between January 1 and the tax filing date (typically April 15) the following are required:
    - IRS form 1099 and W-2 forms from the previous year.
    - Loans closing in January prior to receipt of W-2's may use the prior year year-end paystub. For borrowers using 1099's, evidence of receipt of 1099 income must be provided.
  - Between the tax filing date and the extension expiration date (typically October 15), the following are required (as applicable):
    - Copy of the filed extension.
    - W-2 forms for corporations
    - Form 1099 for commission income.
    - Current year profit & loss (signed by the borrower).
    - Year-end profit and loss for prior year (signed by the borrower).
    - Balance sheet for prior calendar year if business is a sole proprietorship.
  - After the extension expiration date, loan is not eligible without prior year tax returns.
- Verbal VOE to be performed by the underwriter prior to closing using Flagstar's *Verbal Verification of Employment*, [Doc. #3240](#) or if self-employed, an independent written confirmation of self-employment is required (i.e., copy of business license reflecting ownership of company, corporate minutes, etc.). Two continuous years of self-employment in same business are required.

- Verbal VOE must be completed within 10 business days of closing. All loans must provide verbal verification of employment at the time of requesting funds.

### ASSETS

- Funds must be from the borrower's own resources. Business funds may be used for down payment and/or closing costs but cannot be used in the reserve calculation. Cash flow analysis required using 3 months business bank statements to determine no negative impact to business based on withdrawal of funds. Funds must be available to the borrower prior-to and after closing. Proceeds from the transaction (i.e. refinance proceeds, etc.) or sale of assets may not be used to meet cash reserves requirements. Documentation may not be more than 90 days old at the time of close.
- Reserve requirements are based off LTV/CLTV/HCLTV and loan amount. See the Reserves section for additional requirements.
- All EMD funds must be verified. If EMD reflected on 1003 is different than the EMD disclosed on the PA, the underwriter will require verification of those funds.
- In addition to the minimum PITI reserve requirements, borrowers must also disclose and verify all other liquid assets.

### APPRAISAL REQUIREMENTS

Loan Amount	Appraisal Requirement
Up to \$1,000,000	One Full Appraisal
\$650,001 - \$800,000 with LTV >80%	Two Full Appraisals
\$1,000,001 – \$3,000,000	
All properties For Sale By Owner (FSBO)	

- Appraisal is required on the applicable standard Fannie Mae form #1004 (Rev. 5/2005). All 2-Unit properties must be submitted on Form #1025. All condominiums must be submitted on Form #1073 (Rev. 5/2005). No other limited appraisals (including Form #2055, 2095 and 1075) will be accepted.
- Interior photos must be included. Must include photos of the kitchen, bathrooms, bedroom and living room/family room.
- Appraiser must address current MLS listing price and history in the report.
- If transaction includes seller concessions the appraiser must include comps that had seller concessions.
- Escrow holdbacks are not eligible.
- Appraisals identified as being located in a declining market should be given additional scrutiny to ensure the value is supported by the most recent sales and market data and that all of the appraiser comments are taken into consideration.
- A minimum of three comparable sales (must be actual closed sales).
- For properties within a condominium or PUD project at least one comparable sale that is outside the development must be provided.
- Properties listed for sale:
  - Properties currently listed for sale or those that have been listed for sale in the last 12 months are ineligible for refinance transactions under this program.
- Appraisals must be dated within 120 days from date Note is signed. After the 120 day period a new appraisal will be required. Re-certification of value is not acceptable.
- The appraisal must analyze and report in reasonable detail the sales history for the past 36 months for the subject property and the last 12 months for any comparable sales used in the report.
- The appraisal must analyze any current purchase agreement, option or listing for the subject property within the last 12 months.

- The broker or correspondent is responsible for ensuring that the appraisal vendor is made aware of the requirements of this program when placing their order. Flagstar will not request enhancements to reports that do not meet program guidelines, nor be responsible for any fees incurred to update an appraisal report to comply with these requirements.
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract, the following requirements apply
  - Second appraisal is required
  - Property seller on the purchase contract is the owner of record
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.

All appraisals for loans under this product must be reviewed by the Appraisal Review Department. Please allow additional time for loan approval.

Broker and non-AIR compliant Correspondent appraisals must be ordered through Loantrac and will be eligible from any approved AMC listed in *Appraisal Management Companies*, [Doc. #4903](#).

AIR compliant Correspondent appraisals must meet the following guidelines.

- When one appraisal is required:
  - Appraisal is not required to be ordered from one of our approved AMCs.
  - Upon appraisal review discretion, a review appraisal or a full appraisal from one of our approved AMCs may be required at the customer's expense. It will be the responsibility of the customer to place the order.
- Additional requirements when two appraisals are required:
  - Two separate appraisal orders are required. However, appraisals may be completed from the same AMC.
  - Only one appraisal is required to be ordered from one of our approved AMCs.
  - The loan to value will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection and/or recertification of value must be for the appraisal with the lower value.
  - The underwriter must review both appraisal reports and address any inconsistencies between the two reports and all discrepancies must be reconciled.

The following are approved Appraisal Management Companies (AMCs):

- iMortgage
- PCV Murcor
- StreetLinks
- Old Republic

### **SURVEY REQUIREMENTS**

If title work/purchase agreement requires a survey, a copy must be provided.

Survey exceptions on title render a loan ineligible for purchase. Any encroachment or restriction violations mentioned in the title policy must have insuring language.

If any survey includes an exception or encroachment the final title policy must include an ALTA 9 endorsement.

### **LENDER/SELLER CREDITS**

No restitutions are allowed. Lender/seller credits must be itemized when requesting funds.



**TEXAS REFINANCE LOANS**

All refinance loans in Texas will be evaluated against the criteria outlined in our Conventional Underwriting Guidelines, Texas Refinances section to determine if the loan must be originated under the requirements of Section 50(a)(6) of the Texas Constitution.

**MORTGAGE INSURANCE**

Mortgage insurance providers may have additional restrictions not listed within this document. Due to rapid changes within the industry, please refer to each mortgage insurance company's website for complete details. Refer to [MI Company Parameter Matrix](#) to assist you with keeping up with these changes. However, this document is to be used as a reference only.

**STANDARD MORTGAGE INSURANCE GUIDELINES**

All loans above 80% LTV require mortgage insurance coverage according to the following guidelines.

LTV	Coverage
85.01 - 90%	25%
80.01 - 85%	12%

Mortgage insurance is available through Essent, Genworth and MGIC subject to the following guidelines. Refer to mortgage insurance companies for additional restrictions.

- Loans must be underwritten by the MI carrier
- Loan amounts greater than \$625,500 will require a minimum of two appraisals

**NEW YORK PROPERTIES**

For purposes of determining whether or not mortgage insurance will be required, use the loan-to-value ratio that results from dividing the loan amount by the *appraised value* of the property. If the loan-to-value resulting from this method is greater than 80%, then use the standard method of determining loan-to-value (based on the lesser of sales price or appraised value) to determine the required MI coverage level.

Reduced MI is not available.

**LENDER PAID MI (LPMI) OPTION**

PRIMARY RESIDENCE – PURCHASE & RATE/TERM REFINANCE			
Property Type	Maximum LTV	Maximum CLTV	Minimum Credit Score
1-Unit PUD Condo <sup>7</sup>	90%	Subordinate financing is not eligible	700

7. Florida condominiums are not eligible.

All loans with LPMI must submit a *Notice Concerning Private Mortgage Insurance LPMI Initial Disclosure – Fixed Rate*, [Doc. #3290](#) (LPMI Initial Disclosure), dated within three days of application, along with the other compliance documents (TIL, GFE, etc.) at the time of the initial underwriting submission. Further, a *signed LPMI Initial Disclosure will be required as a prior to closing condition*.

**STATE ELIGIBILITY**

Available in the following states with geographic restrictions. States not listed are available without restrictions.



## Jumbo 5/1 & 7/1 ARMs

State	Restriction
Alaska	Not eligible
Hawaii	Appraisal must indicate whether property is located in a lava flow zone as defined by the United States Geological Survey. Properties located in a lava flow zone 1 or 2 are not eligible.
Puerto Rico	Not eligible

### ADJUSTABLE RATE DETAILS

<b>Interest Rate Adjustment Caps</b>	5/1 ARM Initial: 2% up/down; Subsequent: 2% up/down; Lifetime: 5% up
	7/1 ARM Initial: 2% up/down; Subsequent: 2% up/down; Lifetime: 5% up
<b>Margin</b>	See <a href="#">Price Indication Sheet</a>
<b>Index</b>	1-Year LIBOR (London InterBank Offer Rate)
<b>Interest Rate Floor</b>	The interest rate floor is equal to the Margin
<b>Change Dates</b>	5/1 ARM The first change date is the 60th payment due date. There is a new change date every 12 months thereafter.
	7/1 ARM The first change date is the 84th payment due date. There is a new change date every 12 months thereafter.
<b>Conversion Option</b>	None
<b>Assumption</b>	Subject to conditions, fees and rate adjustment
<b>Negative Amortization</b>	None

### PREPAYMENT PENALTY

None

### CLOSING DOCUMENTATION

Closing docs may be ordered through Flagstar's Web-Based Closing Docs (WBCD) service available on Loantrac.

### ADJUSTABLE RATE LOANS

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/Freddie Mac Note 3528
- Fannie Mae/Freddie Mac Rider 3187
- Standard title commitment with all applicable endorsements

### IF APPLICABLE

- Fannie Mae/Freddie Mac multi-state Condo Rider, Form #3140
- Fannie Mae/Freddie Mac Multi-state PUD Rider, Form #3150
- Fannie Mae/Freddie Mac multi-state 1-4 Family Rider, Form #3170 (2-Unit primary residence)
- Fannie Mae-Freddie Mac multi-state Second Home Rider, Form #3890

Refer to Flagstar's [All Memos Search](#) page for memos relating to recent guidelines changes.