SPRING EQ UNDERWRITING GUIDELINES

Pro Tip - Use CTRL-F on your keyboard to search for specific words or topics

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Contents

Underwriting/Credit Policy

Credit Philosophy

Any information not contained herein should be referred to in the Fannie Mae selling guide for requirements.

Spring EQ's is committed to originating or purchasing high quality home equity mortgage loans, which includes leveraging direct data feeds and enhanced workflow automation to create a more consistent decision-making process. Our commitment to this philosophy includes all information within the transaction to be true and accurate as well as making a reasonable, good faith evaluation of the Borrower's ability to repay. The likelihood of timely repayment is expected to be commensurate with the quality of the mortgage loan program and the represented value of the mortgaged property is expected to reflect its market value. The underlying chapters within are focused in detail on supporting Spring EQ's commitment to this philosophy. Areas of focus in validating the Borrower's ability to repay the Mortgage Loan include, but are not limited to:

- Current or reasonably expected income or assets (other than the value of the property that secures the Mortgage Loan) that the Borrower will rely on to repay the Mortgage Loan
- Current employment status
- Monthly mortgage payment
- Qualified monthly payments on any simultaneous loans secured by the same property
- Monthly payments for property taxes and insurance the Borrower is required to buy, and certain other costs related to the property such as Homeowners' Association fees or ground rent
- Debts, alimony, and child-support obligations
- Monthly debt-to-income ratio or residual income are calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
- Credit history

Underwriting Methods

All Spring EQ originated or purchased loans are manually underwritten. Regardless of the underwriting method, additional information may be requested at the discretion of the Underwriter.

All documentation provided must be complete and able to be easily interpreted by the underwriter (i.e., legible, provide sufficient detail, translated when necessary)

Eligibility Underwriting

This section outlines Spring EQ's eligibility requirements. Generally, eligibility policies that vary from one mortgage loan program to another would be described in the product matrices and, in most cases, those program specific differences will not be referenced in this section.

Spring EQ Exclusionary List: LDP & SAM Lists

Spring EQ prohibits mortgage loans where any company or individuals who are material parties to the transaction are listed on HUD's Limited Denial of Participation (LDP) list or the System for Award Management Excluded Party (SAM) list. Both lists must be checked for all parties to the transaction as listed below.

- Borrower(s) and any Borrower(s) AKA names
- Seller(s)
- Real Estate Listing and Selling Agent(s)
- Appraiser
- Appraisal Company (not the AMC)
- Broker, if applicable
- Loan Officer, Loan Assistant

Regardless of the reason for inclusion on the list, any mortgage loan is ineligible when a material party to the transaction is included on either list.

Mortgage Loan Application

The Mortgage Loan Application must be complete, including a full two-year history of employment and residency and all personal information for each Borrower (social security number, date of birth, address, and education.) All declaration questions must be marked indicating the method of taking the application: face-to face, by telephone, or by mail. The interviewer's name and employer must be completed in all cases, and all applications must be signed and dated by the Borrower(s).

The final application for closing must adhere to the requirements above, including the Borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all Borrower's. All debt incurred during the application process and through loan closing must be disclosed on the final application. See Undisclosed Liabilities chapter for more information.

All aspects of the application are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the Borrower's must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the mortgage loan file.

Reapplying to circumvent guidelines and/or omitting or withholding information during the loan process is strictly prohibited and may result in loan ineligibility.
NOTE: Reapplication may be permitted with new and/or additional documentation that would result in a change from the original application

Identity Verification

The identity must be confirmed for each Borrower whose credit is used for loan qualification. The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each Borrower. Acceptable forms of identification include:

- Valid state driver's license with photo
- Work ID with photo
- Military photo ID
- Permanent Resident card with photo
- Medicare card
- Valid state non-driver's license with photo
- Student photo ID
- Military dependents photo ID
- Department of Public Welfare photo ID
- US passport with photo.

Social Security Number Validation

Evidence of a valid social security number is required for all Borrower's. Acceptable documentation to verify a social security number includes, but is not limited to, a valid Social Security card, a current pay stub, W-2, or tax transcripts. Any social security number discrepancies that are identified must be resolved.

Occupancy Types

Eligible occupancy types are Primary Residence, Second Homes and Investment Properties. The feasibility of a Borrower occupying the mortgaged property must be examined when the Borrower indicates the mortgaged property will be their primary residence. The originator must compare the current address reported on the mortgage loan application to the addresses listed on or within borrower provided documents, the credit report, and/or the fraud report. A full explanation and/or supporting documentation (when available) is required to resolve any red flags or inconsistencies noted in the last 12 months.

* Refer to the Spring EQ Home Equity Lending Matrices for additional detail.

Borrower Types

Any person signing an application for a Mortgage Loan is a Borrower. All Borrower's must sign the Mortgage Note.

A Borrower must be an individual. Title must be vested in the Borrower's name or in the name of a trust (Properties Titled in a Trust) at time of closing for all transactions. At least one borrower must be on title at application. Income from a co-borrower added after application can be used if there is proof they have resided in the property for 6 months (proof includes but is not limited to utility bills, W2's, government issued photo I.D., a bank statement, other financial statement and/or vehicle registration). Non-income contributing Borrowers are not required to be vested on title at time of application and can be added to title at closing. For loans secured by subject properties in Texas, non-married vested persons who occupy the property must be added as a co-borrower. When title is held in the name of a limited liability company (LLC), the transaction may be eligible provided the Borrower is either the sole member and 100% owner of the LLC, or all borrowers collectively own 100% of the LLC and title is transferred to the Borrower's or all Borrower's names at closing.

NOTE: Neither a non-borrowing title holder nor a non-borrowing spouse is considered a Borrower, but each may be entitled to certain disclosures and required to sign certain closing documents. A non-borrowing title holder is a non-borrower who holds title to the property. A non-borrowing spouse is the Borrower's spouse and may or may not be on title. Non-borrowing title holders and non-borrowing spouses are not required to sign the promissory note or home equity line of credit agreement and disclosure statement; however, each is required to sign the security instrument and other truth in lending disclosures. Exceptions may apply with regard to non-borrowing spouses who are not on title, as permitted under state law and authorized by the Compliance Department.

Eligible Borrower's

Borrower's must meet credit and program eligibility requirements. Review the following Borrower eligibility guidelines.

U.S. Citizen

The Borrower must be a citizen of the United States or of a U.S. Possession or Territory.

Non-U.S. Citizen

Permanent Resident

A permanent resident is a Non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card (form I-551).
Document legal residency with one of the following:

- A valid and current Permanent Resident card (form I-551); OR
- A passport stamped "processed for I-551," "temporary evidence of lawful admission for permanent residence," "valid until _______," and "employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card (form I-551).

See http://www.uscis.gov/ for more information.

Non-Permanent Resident

A non-permanent resident is a Non-U.S. citizen who lawfully enters the United States for specific time periods under the terms of a visa. A non-permanent resident status may or may not permit employment. Non-Permanent Residents are eligible under the same terms as US citizens.

Verification that the Borrower has one of the following is required:

- Unexpired Employment Authorization Document (EAD -Form I-766) issued by the United States Citizenship and Immigration Services (USCIS); OR
- One of the following visas: H series, L, E-1, or TN visa. For further information see http://www.uscis.gov/

NOTE: DACA award recipients are acceptable with an unexpired Employment Authorization Document (EAD- category C-33)

NOTE: A copy of the front and back of any documentation provided to prove current residency may be required to confirm the expiration date.

Unacceptable visa types are those where the intended purpose of the USCIS is not to reside in the US. unacceptable visa types include, but are not limited to:

- F series (academic student)
- M series (Vocational student)
- J series (Exchange visitor)
- B-1 (temporary visitor)

Visit http://www.uscis.gov/ for more information. On a case-by case basis, alternative documentation approved by the U.S. Citizenship & Immigration Service (USCIS) may be acceptable

Expired Residency Documentation

Residency documentation must be unexpired as of the note date of the loan. If the residency documentation has expired prior to the note date, we will accept one of the following:

- Permanent Resident card- Unexpired government issued ID and an unexpired I-797A form
- Non-Permanent Resident EAD or acceptable visa type- Unexpired government issued ID and an unexpired I-797A form

Ineligible Borrower's

The following Borrower types are not eligible for Spring EQ mortgage loan programs:

- Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts
- Individuals classified under diplomatic immunity, temporary protected status, deferred enforced departure or humanitarian parole
- Foreign nationals that do not meet the requirements in the non-permanent resident guideline above
- Non-Occupant Co-Borrowers
- Guarantors or Co-Signers
- Borrowers party to a lawsuit in which they have any personal financial liability

Non-Occupant Co-Borrower: A non-occupant Co-Borrower is a credit applicant who

- Does not live in the subject property
- Has an ownership interest in the property as indicated on the title documents
- Signs the mortgage
- Signs the mortgage note and thus has joint liability for the mortgage note with the occupant

Guarantor or Co-Signer: A guarantor or co-signer is a credit applicant who

- Does not have ownership interest in the property as indicated on the title
- Signs the mortgage
- Signs the mortgage note and thus has joint liability for the mortgage note with the occupant Borrower AND/OR
- Does not have an interest in the property sales transaction

Non-Arm's Length Transactions

A non-arm's length transaction, also known as an arm-in-arm transaction, refers to a business deal in which buyers and sellers have an identity of interest; in short, buyers and sellers have an existing relationship, whether business-related or personal.

Spring EQ does not allow a non-arm's length transaction. The only exception is if a tenant is buying the property that they are currently renting from the landlord/owner of the property. All other non-arm's length transactions are ineligible for financing.

Multiple Properties Financed/Owned

The policy on properties financed limits is designed to protect Spring EQ from excessive risk exposure.

Each Borrower is limited to no more than 10 financed properties. All financed properties count in total, even when the mortgage is not with Spring EQ

Property Ownership Defined

- Partial or joint ownership is considered the same as total ownership in the property
- Ownership applies to financed properties owned by the Borrower, including any properties the Borrower owns outside of the United States
- A Borrower who is obligated on a mortgage, regardless of whether they hold title to the mortgaged property is included in this limitation
- These limitations apply to the total number of all financed properties, not to the number of mortgages on the property

Property Subject to Limitations

Type of Property Ownership	Subject to Limitations
Joint ownership of residential real estate (considered to be the same as total ownership of an individual property)	YES
Ownership in commercial real estate	NO
Ownership of a multi-family property consisting of more than four dwelling units	NO
Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation	NO

Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation; however, the financing is in the name of the Borrower	**YES**
Ownership in a timeshare	**NO**
Obligation on a mortgage debt for a residential property (regardless of whether or not the Borrower is an owner of the property)	**YES**
Ownership of a vacant (residential) lot	**NO**
Joint or total ownership of a property that is held in the name of an LLC or partnership (Limited or General Partnership or Trust)	**YES**
Ownership of a manufactured home and the land on which it is situated that is titled as real property	**YES**
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home	**NO**

Simultaneous Transactions

All new mortgage loan applications submitted for the same Borrower must be underwritten simultaneously as the impact of each transaction upon the other needs to be fully evaluated.

Title Documentation

For loan or max line amounts less than or equal to $250,000, Spring EQ will utilize an owner & encumbrance report (property report). For loan or max line amounts greater than $250,000, Spring EQ will utilize a full title policy. Piggyback transactions should use a supplemental title policy to the first lien transaction that must include title insurance, closing protection letter (CPL) and wire instructions.

The title documentation must include the following:

- Current grantee and grantor
- Last deed of record information
- Property address
- Recordable legal description
- Ownership interest (i.e., fee simple)
- Status of real estate taxes
- Open mortgages and voluntary encumbrances
- Judgments, liens, and involuntary encumbrances

When originating a second lien transaction, we must confirm the current first lien mortgage information is reflected on the property report and/or final title policy.

PACE and/or HERO loans shown on the title report must be paid in full.

Judgments, liens and/or involuntary encumbrances must be addressed and cannot appear on the final title policy.

3rd liens or any subordinate lien following a Spring EQ lien are not permitted

Notice of Commencement (NOC) refers to any construction being done on a property where a lien has been placed. A copy of the NOC must be reviewed to confirm the work being completed does not create any health or safety concerns with the subject property. If the work creates a health or safety concern (i.e., foundation repairs or roof work), additional documentation will be required to confirm completion of the work. The NOC does not need to be removed from title.

Power of Attorney is limited to Piggyback Purchases only and must follow GSE Requirements

Loan closing signings outside of the U.S. are only permitted for active military borrowers

* Refer to the Spring EQ Lending Matrices for additional information

Eligible Ownership Interests:

- Fee Simple

Ineligible Ownership Interests:

- Life Estates and/or Lady Bird Deeds
- Leasehold Estate
- Properties Titled in an Irrevocable Trust
- Properties Titled in a Land Trust
- Land Contracts

Property Taxes

When the title documents show property taxes due within 60 calendar days of closing and/or are delinquent property taxes, one of the following is required:

- First mortgage lien statement or equivalent escrow documentation verifying the property taxes are escrowed OR
- Proof that the property taxes due and/or delinquent property taxes are paid in full OR
- Confirm the outstanding and/or delinquent property tax balance is to be paid with loan proceeds

Properties Titled in a Trust

When using a fully executed trust agreement, it must clearly identify all of the following:

- The trust was established by a natural person(s) during the lifetime of the individual establishing the trust, to be effective during the natural person's lifetime
- The primary Beneficiary(ies) of the trust must be the individual(s) who established the trust*****.** The individual establishing the trust is often referred to as either Grantor(s) or Settlor(s)
- Income or assets of at least one of the individual(s) establishing the trust are used to qualify for the mortgage loan (For loans with multiple trusts, income, or assets from at least one individual from at least one trust must be used)

- The trust appoints trustees to hold legal title to, and manage the property that has been placed in the trust
- The Trustee(s) must include either of: (a) at least one of the individual(s) who established the trust (most common)*****; or (b) an institutional trustee that customarily performs trust functions and is authorized to act as trustee under the laws of the relevant state (not as common)
- The powers of the Trustee(s) must expressly include the powers to borrow money and to pledge/mortgage/encumber trust property as security
  - **NOTE:** A trust agreement's reference to trustee powers granted by state law or regulation is permitted. The trustee agreement must include a clear reference to the statute or regulation in question, and the statute or regulation must be reviewed to confirm that the required powers are expressly granted to trustees
- The individual(s) who established the trust must have the right to revoke or alter the trust at any time and for any reason during their lifetime. This is known as an "inter vivos revocable trust"
- The trust agreement must be fully executed (signature page is required)
- Any title insurance commitment must not list any exceptions arising from trust ownership of the property

***** If a Grantor/Trustee is deceased or otherwise unable to serve as trustee as provided by the terms of the trust, and a successor Trustee has been appointed in accordance with the terms of the trust, the successor Trustee is permitted to be a Borrower on the loan so long as the successor Trustee is also the beneficiary. Evidence that the original Grantor/Trustee is no longer servicing as trustee, such as a death certificate, must be obtained.

When using a fully executed certification of trust, all of the following applies:

- Must identify:
  - Name of trust
  - Date of creation
  - Governing law (can also be known as state specific code)
  - Identities of persons creating the trust and servicing as trustee(s)
  - Powers of trustees to borrow money and to pledge/mortgage/encumber the trust property as security
  - If there are multiple trustees, how many trustees are required to exercise the trustee powers
  - Revocable nature of the trust
- All Trustees must execute certification; certification signature page required
- Attorney-prepared trust certifications are permitted

NOTE: Neither a non-borrowing title holder nor a non-borrowing spouse is considered a Borrower, but each may be entitled to certain disclosures and required to sign certain closing documents. A non-borrowing title holder is a non-borrower who holds title to the property. A non-borrowing spouse is the Borrower's spouse and may or may not be on title. Non-borrowing title holders and non-borrowing spouses are not required to sign the promissory note or home equity line of credit agreement and disclosure statement; however, each is required to sign the security instrument and other truth in lending disclosures. Exceptions may apply with regard to non-borrowing spouses who are not on title, as permitted under state law and authorized by the compliance department.

Transaction Types

Eligible Transaction Types

- Refinance transactions
- Purchase money transactions
- Simultaneous closings (Piggyback)
- Cash out purchase of another property subject to the following:
  - Provide the Closing Disclosure/Closing Statement supporting the qualifying payment for the proposed purchase transaction regardless of occupancy
  - If the SEQ transaction is a primary residence, rental income is not permitted to be used to offset future departing residence

Ineligible Transaction Types

- Loans in first lien position (except HELOCs)
- Loans with a 3rd lien or any subordinate lien following a Spring EQ lien

Senior Lien Terms

Spring EQ will not originate or purchase 2nd lien mortgage loans behind senior liens that have the following characteristics:

- Tax and judgment liens
- Loans in active forbearance or deferment
- Negative amortization mortgages (this does not include language in the mortgage note warning Borrower's that the lack of payment may result in negative equity and negative amortization is not a feature of the product)
- Balloon mortgages (balloon terms resulting from a loan modification are acceptable subject to the terms in modification requirement. The Spring EQ mortgage term cannot exceed the balloon payment due date)
- Partial claim as a result of a loan modification
- Reverse mortgages
- Construction loans (this does not include construction loans that have been modified to permanent financing as evidenced by all pages of the fully executed loan documents detailing the terms of the permanent financing and the most recent mortgage statement showing fully amortizing loan terms)
- Private mortgages opened within the past 12 months
- Texas 50(a)(6)
- HELOC in the draw period

Modification / Deferment or Forbearance

Any current senior lien that has been modified from the original terms requires all pages of the fully executed modification agreement. Balloon terms resulting from a loan modification are acceptable subject to the terms in the modification requirement. The Spring EQ mortgage term cannot exceed the balloon payment due date. If modification documents indicate a partial claim, review the ineligible senior lien types above.

The first mortgage loan cannot be in any active deferment or forbearance period. Once the deferment or forbearance period has expired, a minimum of 3 monthly payments at the current payment must be documented. The following documentation is required:

- A copy of the deferment or forbearance agreement AND
- Verification of 3 timely payments using one of the following:
  - A loan payment history from the servicer or third-party verification service OR
  - A verification of mortgage OR
  - Cancelled checks OR
  - All pages of the 3 months most recent bank statements OR
  - Account/Transaction summary for the most recent 3 months with verification the bank account is owned by the Borrower

Shared Appreciation Modification Agreements

Shared Appreciation Modification Agreements are eligible. The CLTV is based off the current appraised value minus any appreciation due back to the lender based on that appraised value

Example calculation:

- Agreed upon appraised value as shown on the shared appreciation agreement - $100,000
- Current appraised value - $200,000
- Shared appreciation factor - 25%
  - $200,000 – $100,000 = $100,000 (appreciation)
  - $100,000 *.25 = $25,000 in appreciation due to the lender

HCLTV to be calculated as:

- UPB = $100,000
- Spring EQ lien = $25,000 (hypothetical)
- Shared appreciation = $25,000
- CLTV = $150,000 ($100,000 + $25,000 + $25,000) / $200,000 = 75% CLTV

* Refer to the Spring EQ Lending Matrices for additional information

Credit

This section outlines Spring EQ's credit requirements that apply to all mortgage loan programs. Generally, requirements that vary from one mortgage loan program to another would be described in the Spring EQ Lending Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Credit Report Requirements

The mortgage loan file must contain an Experian single repository credit report ordered by Spring EQ.

All accounts, revolving and installment, reported by the Borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current account status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

When a new or retyped credit report is provided, all prior credit reports must be included in the mortgage loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

The credit report used to evaluate a mortgage loan cannot have frozen credit. If a Borrower unfreezes their credit after the date that the original credit report was ordered, a new credit report must be obtained to reflect current updated information from all applicable repositories. Non traditional credit is not acceptable as a replacement for frozen credit.

All credit reports must include FACT Act messages and at least one repository fraud alert product (Hawk Alert, FACS+ or SafeScan).

When the credit report shows a victim statement under the FACT Act, the originator must document in writing the steps taken to validate the mortgage loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the mortgage loan file. Although due diligence is required, it does not release the originator from its representations and warranties regarding misrepresentation.

Non-Traditional Credit Report

Non-traditional credit reports are not acceptable.

Foreign Credit:

A credit score is required and therefore foreign credit is not acceptable.

Selection and Validation of Credit Score

The credit score will be used as a key component in evaluating the credit quality of the mortgage loan. Selecting the credit score for Experian single repository credit report mortgage loan qualification is a two-step process. First, the credit score must be selected for each individual Borrower and second, the credit score used for mortgage loan qualification is selected.

Selection

Select the credit score for each Borrower by using one of the following methods:

- Experian representative credit score if single repository is used
- Lowest credit score is used in all cases when more than one credit score is supplied from the same repository

Loan Qualification Score

Use the lowest selected credit score among all Borrower's. All Borrower's must meet the minimum credit score and all other credit evaluation requirements.

Authorized User Accounts

When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. Authorized user accounts can be omitted from the monthly debt calculation.

Tradeline Requirements

All mortgage loans require a credit score based on a minimum credit history and tradeline requirements. The credit report(s) utilized, whether joint or individual, must show ONE of the following:

- Minimum of 3 tradelines regardless of timeline with at least 1 of the tradelines being open with a date of the last activity within 6 months from the current date and reporting for at least the past 12 months; OR
- A current mortgage paid as agreed for the past 36 months

Authorized user accounts may not be used to satisfy the tradeline requirements.

Active tradelines are defined by the date of the last activity on the account within 6 months from the current date.

Self-Reporting Utilities

Self-reporting utilities may be considered in the total minimum tradelines required.

Credit History Evaluation

The Borrower's credit profile must be traditionally evaluated for manually underwritten mortgage loans. The evaluation of the Borrower's credit profile must be based on the entire credit history documented in the mortgage loan file. The manner in which the Borrower has managed their previous credit is a strong indicator of future performance. In a subjective evaluation of credit, many factors are considered when evaluating a Borrower's credit history.

Those factors include:

- Credit utilization
- Number and age of accounts AND
- Payment history

The following factors may not be used as offsets for weaknesses in the Borrower's credit reputation because they have already been considered in creating the credit score:

- The absence of, or age of derogatory information
- The number/proportion of accounts paid as agreed versus delinquent
- The types of accounts paid as agreed versus the type of accounts that are delinquent
- Recent paydown or consolidation of account balances by the Borrower
- The length of the Borrower's credit history
- Any combinations of the above factors

Inquiries and Undisclosed Liabilities

All debt verified, disclosed, or identified during the application process and through loan closing of the mortgage loan must be included on the final application and included in the mortgage loan qualification. As a result of the Borrower's credit inquiry explanation form, additional information and/or documentation may be required.

Review the section of the Borrower's credit report that indicates the presence of creditor inquiries. Recent inquiries may indicate that the Borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher risk (whether or not the Borrower obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.

When the credit report indicates recent inquiries within the last 90 calendar days, confirm that the Borrower has not applied for and/or been approved for or obtained any additional credit that is not reflected in the credit report or in the mortgage loan application. If additional credit was applied for and/or approved or obtained, a verification of that debt must be provided and the Borrower must be qualified adding the additional obligation(s) in the Borrower's debt ratio calculation.

Verification of any new debt must be documented using any of the following methods, with the applicable documentation provided in the mortgage loan file:

- A credit supplement documenting the current balance and monthly payment OR
- Direct verification with the creditor(s) of the new debt documenting the current balance and monthly payment that is to be included in the Borrower's debt ration calculation.

Payment History

Review the credit report to determine the current status of each credit account, including mortgages, the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

Housing Payment History (All Real Estate Owned)

Max mortgage lates and housing history requirements vary by product type. When the date of last activity (DLA) on a mortgage rating as shown on the credit report is within 45 calendar days of the date the credit report was completed and the rating covers a 12-month period or the number of months available since the property was acquired (within the last 2 years), no additional documentation is necessary. If these requirements are not satisfied, the mortgage payment history must be updated through a credit supplement, verification of mortgage, mortgage statement(s) and/or cancelled checks.

Cancelled checks and/or bank statements are required for all private mortgages.

A mortgage payment is considered current if it is paid within the month due. When the mortgage statement shows past due mortgage payments and/or accrued late charges that exceed 10% of the total first mortgage payment (PITIA), proof of payment is required prior to closing.

Payment history on any real estate owned, regardless of occupancy, is considered mortgage credit. Payment histories on all mortgage tradelines, including first and second mortgage liens, HELOC's, mobile homes, and manufactured homes are considered mortgage credit, even if reported as an installment loan. Payment history is required for all mortgages when the borrower is obligated on the mortgage/note on all REO for all borrowers on the transaction. Any mortgage lien on the subject property where the borrower is not a note holder (e.g. mortgage held by another party) or that is not reporting on the credit report requires payment history to verify no late or missed payments in the most recent 24-month period. The borrower must qualify with the housing payment for the primary residence and/or the subject property.

* Refer to the Spring EQ Lending Matrices for additional information

Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, and/or short sales.

For Borrower's with a history of past significant derogatory credit, determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information and confirm that the Borrower has reestablished an acceptable credit history.

For cases where a significant derogatory event has occurred, the period of time that must elapse prior to loan eligibility is as follows:

- Foreclosure – 7 Years
- Charge-Off of a Mortgage Account, Deed-in Lieu, Pre-foreclosure Sale, Short Sale, Restructured Payoff, or Short Payoff of a mortgage secured by a property– 4 years
- Chapter 7 or 11 Bankruptcy – 4 years from discharge or 4 years from dismissal

- Chapter 13 Bankruptcy – 2 years from discharge or 4 years from dismissal
- Multiple events within the past 7 years are not permitted

Major Adverse Credit

Major adverse credit is defined as collection accounts, charge-off accounts, judgments, liens, delinquent property taxes and/or income taxes, repossessions, garnishments, and non-mortgage accounts currently 90 calendar days or more delinquent.

Collection accounts and/or charge-offs on non-mortgage accounts must adhere to the following restrictions and/or requirements:

- 1-Unit primary
    - No restrictions
- 2-4 Unit primary or 2nd home
    - Collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to closing or at closing
- Investment properties
    - Collections and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing

Property tax liens (for the mortgaged property and other properties), regardless of seasoning, are required to be paid in full before or at closing, regardless of whether or not they currently affect title.

Past due income taxes regardless of seasoning, are required to be paid in full before or at closing.

Assets

This section outlines Spring EQ's asset requirements that apply to all Spring EQ mortgage loan programs and the review of the asset documents. Program specific differences will not be referenced in this section.

Cash to Close

Asset documentation is required to evidence that the Borrower has sufficient funds to pay the loan cash to close.

All cash to close must be documented and verified.

Funds to close the transaction (not including paying off debts) must be documented if the amount is greater than 1 months PITIA payment (first and second mortgages).

Acceptable Asset Sources

Acceptable sources of assets owned by the Borrower(s) are listed below:

- Checking
- Savings
- Money Market
- Certificates of Deposit
- Retirement Accounts
- Savings Bonds
- Stocks/Bonds /Investment & Brokerage Accounts
- Stock – Privately Held Corporation
- Trust Accounts
- Foreign Assets

Checking, Savings, Money Market and Certificates of Deposit

Funds on deposit in checking accounts, savings accounts, money market accounts and/or a certificate of deposits may be used for cash to close.

- Individual Accounts - funds in the Borrower's individual bank account is acceptable
- Joint Accounts - funds held in a joint bank account are acceptable since the Borrower has access to all funds in the account at all times

Accounts that do not allow the Borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the Borrower is not the beneficiary, such as custodial accounts.

Bank Statements

All pages of the 2 months most recent bank statements to document the Borrower's assets.

Bank statements must clearly identify:

- Name and address of the institution
- The Borrower as an account holder
- At least 4 digits of the account number
- Time period covered by the statement
- All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account AND
- Beginning and ending account balance

If supplemental information is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance and date is acceptable. Supplemental information must be on a bank form indicating the name of the bank or on bank letterhead signed by a bank representative. ATM receipts cannot be used to verify assets.

Bank or investment account statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the internet uniform resource locator (URL) address is included identifying the source of information as well as all of the identifying information listed above for standard bank statements or protected bank statements retrieved online. Statements downloaded directly from the internet to a Microsoft Word document or Microsoft Excel spreadsheet are not acceptable.

NOTE: Third party verification statements are acceptable provided they meet all requirements outlined above

Verification of Deposit (VOD)

A verification of deposit as a standalone verification document is not acceptable. Full account statements must be provided. A verification of deposit can be used to provide supplemental information (e.g., update account balance) issued by the depository institution may be obtained.

Each verification of deposit must clearly identify:

- The name and address of the depository or investment institution
- The Borrower as the account holder
- Account number
- Type of account
- The open date
- The average balance for the previous 2 months AND
- The account balance as of the date of the VOD

In cases where average balances are not available, all pages of the most recent 2 months bank statements must be provided.

The VOD must be obtained directly from the depository institution. A VOD should never be mailed to a post office box or to an individual's attention. If the Borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement.

The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.

Review of Asset Account Statements / Identification of Large Deposits

Any indications of borrowed funds must be investigated. Indications of borrowed funds include:

- A recently opened account OR
- A recently received large deposit OR
- An account balance that is considerably greater than the average balance over the previous few months

When there is a recently opened account with a substantial balance, a discrepancy between the average and current balances or a large increase in an existing account, the source of funds must be explained by the Borrower and verified. If a large deposit is from another account that is verified in the mortgage loan file, that account must be verified after the withdrawal to ensure that the assets are not counted twice. Unverified funds are not acceptable sources for cash to close. All asset documentation should be examined for signs of fabrication or alteration as well as analyzing the documentation to calculate interest and reviewing deposits against income levels and sources to ensure these are reasonable and are necessary to validate the documents.

A large deposit is defined as a single deposit where the deposit exceeds 50% of the total monthly qualifying income. When assets are required to qualify, large deposits must be properly sourced.

Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRS, and KEOGH) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as the source of funds for cash to close. The most recent retirement account statement must be provided and must identify that the funds have been liquidated prior to closing.

Savings Bonds

United States savings bonds may be used as a source of cash to close with documentation of redemption and receipt. The documentation must include a statement from a representative at a financial institution confirming that they have seen the bonds, listing the serial numbers of the bonds, maturity date, type, and amount of bond, and stating that the Borrower is the owner. There must be proof of the bond value from the appropriate U.S. Treasury table.

Stocks/Bonds /Investment & Brokerage Accounts

Verification of liquidation and receipt is required when the funds from stocks/bonds/investment & brokerage accounts are used for cash to close.

The following documentation is required:

- The most recent monthly or quarterly statement from the depository or investment firm
- Photocopy of the stock certificate accompanied by a newspaper stock list that is dated as of or near the application date or an internet stock list.

Government bonds should be valued at the purchase price unless redemption value can be determined and verified.

Stock – Privately Held Corporation/Unlisted Corporation

When the stock of a privately held (not publicly traded) corporation will be used as cash to close, the price per share must be validated by a CPA for the corporation. A copy of the buy/sell agreement is also required. Verification of receipt of the funds from the sale of the stock is required.

In the situation where the privately held corporation is a source of the Borrower's income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse effect on the business or reduce the Borrower's current income level.

Trust Accounts

Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds.

Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details the following information:

- Identifies the trustee, including name, address, telephone number and individual contact. The trustee must be an independent party that typically handles trust accounts, such as a trust company, financial institution, CPA, or lawyer
- Identifies the Borrower as the beneficiary
- Shows that the Borrower has access to all or certain specific amount of the funds
- Evidence that the trust has the assets to disburse funds to the Borrower
- If the assets are required for closing, proof of receipt is required

Foreign Assets

Foreign assets being used for cash to close must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be converted into United States currency by an independent third party and placed in a United States banking institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Unacceptable Asset Sources

Unacceptable asset sources include, but are not limited to the following:

- Business Funds
- Bridge Loans
- Cash advance on a revolving charge account or unsecured line of credit
- Cash for which the source cannot be verified (e.g., garage sales)
- Contribution limitations
- Credit card financing
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing contributions in the seller concession
- Funds from a community second mortgage/down payment assistance program
- Funds in a custodial or in trust for account
- Individual development accounts

- Labor performed by the Borrower, also referred to as sweat equity
- Materials furnished by the Borrower that are not part of a pre-closing agreement with a builder
- Pooled funds
- Real estate commission
- Salary advance
- Gift funds
- Crypto currencies
- Stock options and non-vested restricted stocks
- Accounts where the Borrower does not have immediate access to the funds (including where the Borrower is not the Beneficiary, such as a custodial account)

Liabilities & Debt Ratios Overview

The Liabilities & Debt Ratios standards apply to all mortgage loan programs. Debt-to-income ratios compare all monthly obligations and debt payments to monthly gross income. The debt-to-income ratio is a critical factor in determining the Borrower's ability to repay mortgage debt and the determination of the Borrower's eligibility to qualify for the mortgage loan program. Generally, requirements that vary from one mortgage loan program to another would be described in the Spring EQ Lending Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Monthly Debt Obligation

The total monthly debt obligation is the sum of all housing expenses plus all other monthly debt obligations or expenses incurred by the Borrower. Any additional debt obtained as a result of a recent inquiry on the credit report and/or discovered during the underwriting process must be included in the monthly debt obligation. Monthly debt obligations include:

- Real Estate Mortgages & Related Expenses
- Alimony, Child Support and Maintenance Payments
- Authorized User Accounts
- Bridge Loans
- Business Debt in Borrower's Name
- Co-Signed Loans
- Court-Ordered Assignment of Debt
- Home Equity Lines of Credit
- Installment Debt
- Lease Payments
- Loans Secured by Financial Assets
- Mortgage Assumptions
- Open 30-day Charge Accounts
- Property Settlement Buy-Out
- Revolving Charges/Lines of Credit
- Student Loans
- Uniform Commercial Code (UCC) Filings / Solar Panels
- Voluntary Recurring Obligations/Pay stub Deductions

Real Estate Mortgages & Related Expenses

Mortgage payments and related expenses (including principal, interest, real estate taxes, hazard insurance premiums, flood insurance premiums, homeowner's association dues/fees & special assessments, mortgage insurance premiums, leasehold, or ground rent amounts) on the subject property and other real estate owned must be included in the Borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property which is currently pending sale (not closing prior to subject transaction), or a property retained as a second home and/or an investment property.

Consider all of the following:

- Aggregate net negative rental income from all rental properties, AND

- Current rental payment (when Borrower is currently renting and purchasing a second home or investment)

When the mortgage loan application reflects the Borrower owns other real estate free and clear of mortgage liens or encumbrances, evidence is typically not required. However, under certain circumstances the underwriter may require documentation confirming the real estate is unencumbered. The related expenses (including but not limited to real estate taxes, hazard insurance premiums, flood insurance premiums, homeowner's association dues/fees) must be documented and included in the calculation of the Borrower's debt ratio.

NOTE: Maintenance fees for timeshares do not need to be included in the debt calculation.

ARM

When the subject property first mortgage is an adjustable-rate mortgage (ARM) that adjusts within the next 5 years, the current rate plus the initial rate adjustment cap must be used to calculate the payment that is to be included in the housing expense. When calculating the ARM adjustment, the remaining principal balance must be used.

Interest Only

When the subject property first mortgage has an interest only feature, the fully amortizing payment must be included in the housing expense. The remaining term following the interest only period MUST be used to calculate the fully amortizing payment on ALL interest only first mortgages (ex. 30-year term with a 5-year interest only feature- use the 25-year term in the fully amortizing payment calculation). Review the various calculation methods corresponding to the different types of interest only first mortgages outlined below.

- Interest only fixed rate first mortgage- The remaining principal balance at the existing rate must be used to calculate the payment to be included in the housing expense

- Interest only first mortgage with an adjustable-rate that adjusts within the next 5 years- The remaining principal balance and the current rate plus the initial rate adjustment cap must be used to calculate the payment to be included in the housing expense

Alimony, Child Support and Maintenance Payments

When the Borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for more than 10 months, the payments must be considered in the debt-to-income ratio (and may not be deducted from income). Voluntary payments do not need to be taken into consideration.

One of the following is required to document the payment and the number of remaining payments:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it was received, OR
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made

Authorized User Accounts

When the Borrower is authorized to use a credit account and has no financial responsibility for repayment, the payment does not need to be included in the debt calculation.

Bridge Loans

A bridge loan is a form of mortgage secured by the Borrower's present home, which is for sale. By using funds from this loan, the Borrower can close on a new home before selling the present home. Bridge loans must be included in the Borrower's debt-to-income ratio.

Business Debt in Borrower's Name

When a self-employed Borrower indicates that certain liabilities are paid by their business, it must be confirmed that the obligation was paid from company funds and meets all of the following requirements:

- There is no history of delinquency on the account within the most recent 12 months, AND
- Submission of all pages of the business bank statements and/or cancelled checks to prove that the business has made the account payments for the most recent 12 months

The business debt must be included in the Borrower's individual recurring monthly debt obligations if any of the following situations exist:

- The business does not provide sufficient evidence that the obligation was paid out of company funds
- The business provides acceptable evidence of its payment of the obligation, but the cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense - and taxes and insurance, if applicable - equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan)
- The obligation has not been accounted for in the cash flow analysis
- The account has a history of delinquency in the most recent 12 months

If the Business Debt is included in the Borrower's monthly debt obligations, the business expenses and income should be appropriately adjusted to ensure that the obligation is only counted once.

Debts Paid by Other

Non-mortgage debt must be included in the debt-to-income ratio, unless:

- The account has been open for a minimum of 12 months AND
- There is documentation to evidence that another party has made the most recent 12 consecutive payments AND
- There are no delinquent payments in the most recent 12 months

Mortgage debt must be included in the debt-to-income ratio, unless:

- The account has been open for a minimum of 12 months AND
- There is documentation to evidence that the party making the payments is obligated on the mortgage debt AND
- There is documentation to evidence that another party has made the most recent 12 consecutive payments AND
- There are no delinquent payments in the most recent 12 months

NOTE: Rental income from a property where the mortgage debt is excluded cannot be used for qualification

Court-Ordered Assignment of Debt

When the Borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the Borrower from liability, it may still be excluded from the debt-to-income ratio with a copy of the court order assigning the debt.

The payment history of the assigned debt does not need to be taken into consideration after all terms of the assignment have been completed.

Home Equity Lines of Credit

When any real estate owned has a home equity line of credit, that has a balance, a monthly payment, must be considered part of the Borrower's recurring monthly debt obligations. Proof of the monthly obligation must be documented. If an open HELOC on any real estate owned has a zero balance and no monthly payment reporting on the credit report, no payment needs to be included in the recurring monthly obligations.

Installment Debt

Installment debt that is not secured by a financial asset, including automobile loans and timeshares with more than 10-months remaining must be included in the Borrower's monthly debt obligations. Installment Debt that is deferred or in forbearance must always be included in the Borrower’s monthly debt obligations. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the Borrower’s payment or forbearance letters must be obtained to determine the monthly payment used for loan qualification.

Lease Payments

Lease payments must always be included in the Borrower’s recurring monthly debt obligations, regardless of the number of months remaining on the lease or even if the lease is being paid off with loan proceeds.

Loans Secured by Financial Assets

The Borrower may use their financial assets (life insurance policies, 401k accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan. The payment on this type of loan is not required to be included in the debt-to-income ratio provided the applicable loan instrument shows the Borrower's financial asset as collateral for the loan

Mortgage Assumptions

When the Borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of the liability, the Borrower has a contingent liability.

The contingent liability (PITIA) does not need to be included in the debt-to-income ratio if verification that property purchaser has at least a 12-month history of making regular and timely payments for the mortgage has been documented. The following is required:

- Evidence of transfer of ownership
- Copy of the formal and fully executed assumption agreement
- Credit report indicating consistent and timely payments were made for the assumed mortgage with no delinquency noted

If timely payments for the most recent 12-month period cannot be documented, the mortgage payment must be included in the Borrower's recurring monthly debt obligations.

Open 30-Day Charge Accounts

Open 30-day charge accounts (i.e., AMEX) with account balances are required to be paid off unless one of the following is documented:

- The balance is less than one month of the 1st mortgage and proposed Spring EQ mortgage PITIA payments; OR
- Use 5% of the balance shown on the credit report OR
- Borrower has sufficient assets to cover the unpaid balance OR
- Borrower qualifies with the total unpaid balance as a monthly obligation OR
- The most recent statement shows there is a pay over time option

If the open 30-day charge account has a portion of the balance that is paid over time, the following is required:

- The most recent statement showing all balances and amounts due
- Proof of sufficient assets to cover the New Balance amount (shown in the Pay In Full Portion section of the statement)
- Include the Minimum Due amount (shown in the Pay Over Time Portion section of the statement) in the debt calculation

Click here for all acceptable asset sources that can be used to verify the borrower has sufficient assets to cover the unpaid balance.

Property Settlement Buy-Out

When the Borrower's interest in a property is bought-out by another co-owner of the property, the mortgage lender may not release the Borrower from liability under the mortgage, thus creating a contingent liability for the Borrower. This contingent liability does not need to be included in the debt-to-income ratio provided there is documentation to evidence the transfer of title of the property.

Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended, should be treated as long-term debts, and must be considered part of the Borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit.

If the credit report does not show a required minimum payment amount, use 5% of the outstanding balance as the recurring monthly debt obligation unless there is supplemental documentation to support a payment of less than 5%.

Student Loans

For all student loans, when a monthly student loan payment is provided on the credit report, it is acceptable to use that amount (other than $0) for qualifying purposes. When the credit report does not reflect the correct monthly payment, use the monthly payment that shows on the student loan documentation (most recent student loan statement) to qualify the borrower.

When the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, determine the qualifying monthly payment using one of the following options:

- Income-driven payment plans- Obtain student loan documentation to verify the Borrowers actual monthly payment is $0. Once verified, the Borrower can be qualified with the $0 payment
- Deferred loans or loans in forbearance- Calculate one of the following:
    - A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), OR
    - A fully amortizing payment using the documented loan repayment terms

NOTE: Estimated payments cannot be used for qualifying purposes.

Uniform Commercial Code (UCC) Filings / Solar Panels

When a UCC filing is identified on title (i.e., solar panels), verification of the monthly obligation is required to be included in the Borrower's debt calculation.

To determine the UCC monthly obligation, one of the following is required:

- Copy of the user agreement OR
- Copy of the account statement verifying the monthly debt obligation, OR
- Verification of the monthly debt obligation is present on the credit report and the creditor can be linked to the reference on title

When the monthly obligation increases over time, the highest payment amount within the next 3 years must be used. Title must be reviewed for the presence of UCC filings that could impede the first lien position of the subject property mortgage. When solar panels are noted in the appraisal but do not show as a UCC filing on title, no additional documentation or verification of the monthly obligation is required.

If a UCC filing is tied to a PACE or HERO loan, the loan must be paid in full.
Properties with solar power as the only source of electricity are ineligible.

Voluntary Recurring Obligations / Pay Stub Deductions

Voluntary recurring obligations identified on a Borrower's pay stub as a deduction do not need to be considered in the underwriting analysis or subtracted from gross income (401k contributions, 401k loans, union dues, commuting expenses, federal, state, and local taxes, or other voluntary pay stub deductions). Any other pay stub deduction must be considered in the debt calculation.

Review the Employment and Income Analysis and Documentation chapter for treatment of business expenses.

Debt Pay Off/Pay Down

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The Borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Payoff of revolving or installment debt for loan qualification is permitted.

NOTE: If installment debt is a lease, the monthly obligation must be included in the DTI calculation even when paying off the installment debt balance with loan proceeds

Pay down of installment debt to meet DTI and/or CLTV requirements is not permitted

Employment and Income Analysis and Documentation

This section outlines Spring EQ's employment and income analysis and documentation requirements that apply to all mortgage loan programs. Generally, requirements that vary from one mortgage loan program to another would be described in the Spring EQ lending matrices and, in most cases, those program-specific differences will not be referenced in this section.

Stability and Continuance of Employment and Income

Income may not be used if it comes from any source that cannot be verified, is not stable, and/or will not continue.

When analyzing a Borrower's employment record, the following must be examined:

- The Borrower's past employment record AND
- Previous training and education

To use a source of income to qualify a mortgage loan, the income must be proven, stable and continuous (i.e., must reasonably continue into the future). A minimum of 2 years employment history from the application date and continuance of income for 3 years is required for all Borrower's whose income is being used to qualify. Unless there is evidence that the income will no longer be received, conclude that the income will continue for 3 years.

If a Borrower's employment history includes unemployment, the application must reflect at least 2 years of employment from the application date. If the Borrower has less than a two-year history of receiving income, justification to determine that the income being used for qualification is stable must be present in the file. Review the Employment Gaps section below.

Consider both the length of the Borrower's employment with any one employer and the stable and reliable flow of income. When evaluating a Borrower who has frequent job changes or unemployment, focus on whether the changes have affected the Borrower's ability to repay their obligations. If the Borrower provides documentation of a consistent level and type of income and the ability to pay their obligations despite changes in the source of that income, it can be presumed that the Borrower's income level is stable.

Known economic conditions, such as plant closings or company bankruptcies that may affect the Borrower's income must be taken into consideration.

Any decreases or significant increases could affect the stability of the Borrower's income and would require further analysis and a satisfactory justification from the underwriter on the Underwriting Worksheet. A significant increase is defined as 100% or more increase in the income from the previous year. If a satisfactory justification cannot be provided, the income will be considered questionable and should not be used to qualify the Borrower.

Borrowers who change jobs for advancement and maintain a stable earning capacity and good credit history, as well as Borrower's with demonstrated job stability, will be eligible. Education or training to enhance job opportunities and income will receive favorable consideration. If a Borrower does not meet the employment history requirement for the 2 full years prior to the date of the Mortgage Loan Application, and was previously in school or the military, obtain copies of the Borrower's diploma/transcripts or discharge papers.

Employment Gaps

The stability of employment and income and its likelihood of continuance along with the Borrower's ability to maintain satisfactory credit ratings should all be factored into the underwriting decision when there are gaps of employment.

Borrower's who are re-entering the work force after an extended absence (6 months or more) may be considered to have stable employment if all of the following is met:

- The Borrower has been employed in their current job for 6 months or more AND
- The most recent two-year employment history, including any gaps in employment is documented

Income Documentation Standards and Overview

Each income documentation form and requirements are discussed below:

- Tax Information Authorization/Tax Transcripts
- Pay Stubs
- W-2s
- Written Verification of Employment and Automated Verification of Income
- Verification of Employment
- Tax Returns
- Income Analysis Forms

NOTE: Third party verification statements are acceptable in all instances when bank statements are used to verify income provided the statements meet all requirements outlined in the Bank Statements guideline.

Tax Information Authorization and Tax Transcripts

All Borrower's whose income is used to qualify must sign and date a completed and unexpired IRS form 4506-T or 4506-C at application, authorizing Spring EQ or it assigns to obtain income information. The form must not expire before a reasonable time to allow Spring EQ to process, if needed. In addition, all Borrower's must sign and date a completed IRS Form 4506-T or 4506-C at closing to allow for possible post funding quality control processing.

If an IRS Form 4506-T or 4506-C was processed and tax transcripts are obtained to validate the Borrower's personal tax returns and/or W-2s for the most recent 2 years, evaluate the information provided by the IRS during the underwriting process. Significant differences must be reviewed, resolved, and detailed comments provided regarding the resolution documented on the Underwriting Worksheet.

If a Borrower was not required to file the prior year's tax return and the source of income cannot be validated through the IRS Form 4506-T or 4506-C process, documentation supporting the lack of filing tax returns must be provided.

Tax Transcripts

Tax transcripts are only required for the following scenarios:

- Self-Employed
  - Greater than or equal to 5 years- Most recent year
  - Less than 5 years- Most recent 2 years
- Employed by a Family Member- Most recent 2 years
- Handwritten pay stubs and/or W-2s- Most recent 2 years
- Underwriter discretion (where there are inconsistencies on the documents provided)

Pay Stubs

Pay stubs must clearly identify the following:

- Borrower as the employee
- The employer's name
- A date within 30 calendar days of the application date
- Year-to-date earnings
- The pay period start and end dates
- All payroll deductions

For employees paid on an hourly basis, the pay stubs must reflect the number of hours worked in the pay period and the hourly rate.

Pay stubs must be computer generated or typed, legible and without alterations. If the employer does not provide acceptable computer generated or typed pay stubs, a Written Verification of Employment or an Automated Verification of Income is required. Pay stubs must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained.

Pay stubs that are issued electronically, via e-mail or downloaded from the internet are acceptable and must include the following:

- Internet uniform resource locator (URL) address identifying the source of the information
- Date and time printed

Documents downloaded directly from the internet to a Microsoft Word document or Microsoft Excel spreadsheets are not acceptable.

W-2s

W-2s must clearly identify the following:

- Borrower as the employee
- The employer's name and address

W-2s must be computer generated or typed, legible, and without alterations.

Written Verification of Employment (WVOE) and Automated Verification of Income (VOI)

The Written Verification of Employment (WVOE) and/or Automated Verification of Income (VOI) must clearly identify the following including but not limited to:

- Dates of employment
- Position
- Probability of continued employment, when available
- Gross base pay amount and frequency
- Average hours worked in the pay period
- Additional salary information itemizing any bonus, overtime, tip, gratuity, commission income and/or any other variable income
- Employer signature, title, phone number and date (WVOE only)

When a written verification of employment is used, it must be completed by the personnel department. The written verifications of employment should never be mailed to a post office box or to an individual's attention. If the Borrower indicates that the written verification of employment must be mailed, the file must include a processor certification confirming that the employer was contacted independently and verified the requirement. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

NOTE: When a written verification of employment is obtained from a broker partner, a processor certification is required stating the Spring EQ associate spoke to the person who completed the WVOE and confirmed that all information is true and accurate.

Verification of Employment

A verbal verification to confirm all Borrower’s current employment status within 10 business days from the mortgage note date (or funding date for escrow states) for wage income is required. Verification of the existence of the Borrower’s self-employed business through a third-party source within 30 calendar days from the mortgage note date (or funding date for escrow states) is required.

If the Borrower is in the military, a military leave and earnings statement dated within 30 calendar days from the mortgage note date (or funding date for escrow states) is acceptable in lieu of a verbal verification. Or a verification of employment through the Defense Manpower Data Center (DMDC) website (https://dwp.dmdc.osd.mil/dwp/app/main)

If using a third-party service to verify employment (e.g., The WorkNumber, Quick Confirm, or LexisNexis) the following policy applies:

- Request to third party must be within 10 business days of the mortgage note date (or funding date for escrow states)
- Employment verification between employer and third party must be within 35 calendar days of the mortgage note date.

To comply with a verbal verification of employment (or telephone confirmation) requirement, independently obtain the phone number and address for the Borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, a similar directory or by contacting the applicable licensing bureau.

Verbal Verification of Employment (VVOE)- Wage Earners:

A verbal verification of employment must contain all of the following information:

- Date of contact
- Borrower's employment status and job title
- Name, phone number, and title of individual contacted at entity
- Name of the entity contacted
- Name of the associate contacting the employer
- Method and source used to obtain the phone number

Verification of Self-Employed Business(es)

Evidence that the Borrower has at least 2 consecutive years of self-employment operating the same business in the same location is required. Verification of self-employed Borrower's must meet one of the following:

- Verification of the existence of the Borrower's business, completed via third party resources, such as:
  CPA, regulatory agency, or the applicable licensing bureau, Secretary of State websites
- Verification of the listing and address for the Borrower's business using:
  A telephone book, the internet, or directory assistance
- If contact is made verbally with a third party, complete a processor certification with the following information:
  The source of the information obtained, the name and title of associate confirming the information, state what the confirmed information is

Tax Returns

Personal and/or business tax returns must be complete with all pages and schedules including any applicable W-2's, 1099's and/or K-1's. All pages and schedules of the business tax returns are required for all other self-employed business types. 1040 Tax transcripts may be used in lieu of tax returns for Schedule C self-employed businesses.

When there is any evidence in the file of a past due and/or delinquent tax liability owed to the IRS, documentation showing the tax liability is paid in full is required or the tax liability must be paid in full with loan proceeds.

Amended Tax Returns:

Tax returns that are amended and filed by the Borrower with the IRS are only acceptable when filed prior to the mortgage loan application date. All pages and schedules of the original filed tax return, all pages, and schedules of the amended return (1040X) and tax transcripts are required. When the tax return was amended 60 calendar days or less from the application date, evidence of any tax liability due must also be provided.

Early in the calendar year, Borrower's may not have filed their most recent year tax return. The table below defines cut off dates for the note date for when updated returns would be required.

The tax filing deadline is typically April 15th, however it can adjust depending on if the 15th falls on a weekend or if the IRS website announces an extension of the filing deadline, including states affected by a disaster.

Application Date	Age of Tax Return and Documentation Requirements
Jan 1st - current year tax filing deadline (April 15th)	All pages and schedules of the most recent tax return(s) filed with the IRS being used to qualify
April 16th - October 15th	If the Borrower has filed the 2024 tax return: • All pages and schedules of the most recent and applicable year(s) tax returns If the Borrower has NOT filed the 2024 tax return: • Completed 2024 tax extension (form 4868) and proof the estimated tax liability was paid • IRS confirmation verifying tax transcripts are not yet available for the 2024 tax year; AND • All pages and schedules of the most recent and applicable year(s) tax returns
October 16th - December 31st	All pages and schedules of the most recent and applicable year(s) tax returns* Use of tax extension is not permitted after October 15th (unless the IRS publishes additional extensions)

Income Analysis Forms

The following income analysis forms are acceptable

- Spring EQ Income Calculation Worksheet
- Cash Flow Analysis (Fannie Mae Form 1084)
- Income Analysis (Freddie Mac Form 91)

Income Type

Income types are defined as follows and detailed throughout this chapter:

- Wage Earners
- Secondary Employment and/or Multiple Jobs
- Bonus or Overtime
- Commission
- Non-Profit

- Self-Employed
- Rental

Wage Earners

Wage earners receive a consistent wage or salary from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. If the Borrower's earnings are regular, use the monthly gross income to qualify. If a Borrower's hours fluctuate, either average the current weekly hours shown on the pay stubs provided or average the past 2 years W-2 earnings and the year-to-date earnings. Additional documentation may be required.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years earnings OR
- Most recent pay stub(s) dated within 30 calendar days of the application date AND
- W-2s for the most recent 2 years OR
- The year-end pay stub when a W2 is not available.

New Employer

When the Borrower has started with a new employer while the loan is in process and/or within 30 calendar days of the application date, one of the following documentation options is required:

- A copy of the offer letter AND
- Verbal verification from the employer confirming the borrower has started at the rate shown on the offer letter OR
- A written verification of employment (WVOE) or an automated verification of income (VOI) including the year-to-date earnings OR
- The most recent pay stub dated within 30 calendar days of the application date AND
- W-2s for the most recent 2 years OR
- The year-end pay stub when a W2 is not available

If the qualifying income cannot be calculated using the pay stub, a copy of the offer letter showing all terms and conditions is required.

Variable Income calculation with a two-year history with the same employer

If the income documentation provided shows a consistent two-year work history with the same employer and includes the most recent pay stubs and 2 years W-2 forms show variable income such as but not limited to bonus, overtime, commission, an average of that income can be used for qualification without the need of a written verification of employment (WVOE) or verification of income (VOI) and / or year-end pay stubs. Deducting the base pay from the W-2 amounts and ensuring that the income is supported by year-to-date earnings is necessary. The following example is intended exclusively for this section.

Example: The pay stub(s) show variable income types. The borrower has worked for the same employer for the past 2 years and the income has increased year over year. In the example below, a 24-month average of the variable income would be used if the YTD variable income showing on the pay stub supports the qualifying amount

- 2024- The YTD base income will be calculated based on the information shown on the pay stub(s) provided
  - The 2024 pay stub shows the borrower is paid $30 an hour and works 40 hours a week-
    30 x 40 x 52 weeks = $62,400
    2023 W2- $100,000 - $62,400 = $37,600 in variable income
    2022 W2- $80,000 - $62,400 = $17,600 in variable income
    $37,600 + $17,600 = $55,200 ÷ 24 months (income increased) = $2,300 monthly (qualifying variable income)

When using the most recent pay stubs and 2 years W-2 forms to calculate the variable income (as mentioned above), the variable income must show in the Income Source section on the final 1003 as indicated below.

Employer or Business Name WORKPLACE Phone (456) 565-6465
Street 233 WORK PL Unit #
City CAMP MCCOY State WI ZIP 54656 Country UNITED STATES

Position or Title MANAGER
Start Date 03/01/2014 (mm/dd/yyyy)
How long in this line of work? 10 Years ______ Months

Check if this statement applies:
☐ I am employed by a family member, property seller, real estate agent, or other party to the transaction.

☐ Check if you are the Business Owner or Self-Employed
○ I have an ownership share of less than 25%.
○ I have an ownership share of 25% or more.
Monthly Income (or Loss) $

Gross Monthly Income		
Base	$ 10,000.00	/month
Overtime	$	/month
Bonus	$	/month
Commission	$	/month
Military Entitlements	$	/month
Other	$ 2,000.00	/month
TOTAL	$ 12,000.00	**/month**

1c. IF APPLICABLE, Complete Information for Additional Employment/Self-Employment and Income ☒ *Does not apply*

1d. IF APPLICABLE, Complete Information for Previous Employment/Self-Employment and Income ☒ *Does not apply*
Provide at least 2 years of current and previous employment and income.

Borrower Name: ANDY AMERICA
Uniform Residential Loan Application
Freddie Mac Form 65 • Fannie Mae Form 1003
Effective 1/2021

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1000145063

1e. Income from Other Sources ☐ *Does not apply*
Include income from other sources below. Under Income Source, choose from the sources listed here:

• Alimony	• Child Support	• Interest and Dividends	• Notes Receivable	• Royalty Payments	• Unemployment Benefits
• Automobile Allowance	• Disability	• Mortgage Credit Certificate	• Public Assistance	• Separate Maintenance	• VA Compensation
• Boarder Income	• Foster Care	• Mortgage Differential Payments	• Retirement (e.g., Pension, IRA)	• Social Security	• Other
• Capital Gains	• Housing or Parsonage			• Trust	

NOTE: *Reveal alimony, child support, separate maintenance, or other income ONLY IF you want it considered in determining your qualification for this loan.*

Income Source - *use list above*		Monthly Income
Other	Specify VARIABLE OVERTIME/BONUS/COMMISSION	$ 2,000.00
	Provide TOTAL Amount Here	$ 2,000.00

Secondary Employment and/or Multiple Jobs

A Borrower must have at least 2 years employment history with all secondary employers and/or multiple jobs in order to include the income for qualification purposes. When a gap of employment greater than one month in the most recent 12-month period is documented, the income from secondary and/or multiple employers cannot be used for qualification purposes. If this income is received for less than 2 years, it may not be considered as qualifying income; however, it can only be considered as a compensating factor.

Secondary employment and/or multiple jobs income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years earnings OR
- Most recent pay stub(s)
- W-2s for the most recent 2 years

Bonus or Overtime

Bonus or overtime income is defined as compensation in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least 2 years.

Bonus or overtime income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. When the income has been received for less than 2 years but greater than 18 months, the income can be used to qualify, however the income must be averaged over 24 months.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and the prior 2 years earnings OR
- Most recent pay stub(s), W-2s for the most recent 2 years AND
- The year-end pay stubs for the most recent 2 years

NOTE: Bonus Income: When the loan application date is on or after October 1st and the income documentation does not show any YTD bonus income, the prior year pay stub showing bonus income was paid out in the fourth quarter is required.

Review the Wage Earners guideline for an alternate calculation method and the corresponding documentation requirements

Commission

Commission income is defined as a fee or percentage paid to an employee for performing a service and may be accepted as stable income if the income has been received for at least 2 years.

Commission income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. When the income has been received for less than 2 years but greater than 18 months, the income can be used to qualify, however the income must be averaged over 24 months.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years earnings OR
- Most recent pay stub(s), W-2s for the most recent 2 years AND
- The year-end pay stubs for the most recent 2 years

Review the Wage Earners guideline for an alternate calculation method and the corresponding documentation requirements

Non-Profit

Founders of a non-profit organization's compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. An explanation is required when the base income used for the borrower's qualification exceeds 3% of the year-to-date earnings. Additional documentation may be required.

The founder's income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The qualifying income must be from the same non-profit organization.

The following documentation is required:

- Most recent pay stub(s) AND
- W-2s for the most recent 2 years OR
- The year-end pay stub when a W2 is not available

If the borrower does not receive a W2 from the non-profit organization, the following documentation is required:

- All pages and schedules of the most recent 2 years personal tax returns OR
- 2 years 1099s AND
- All pages of the most recent 2 months personal bank statements

Founder(s) are not to be considered self-employed. However, the business tax returns may be required to determine the qualifying income for the founder(s)

Self-Employed

A self-employed Borrower is any individual who has a 25% or greater ownership interest in a business and/or receives 1099s. Some examples of self-employed individuals who receive 1099s to document income include contract workers, real estate agents and/or individuals relying on investments as their primary source of income.

Evidence that the Borrower has at least 2 consecutive years of self-employment operating the same business in the same location is required to demonstrate income stability.

Self-employed Borrower's relocating to a different geographic area must document and explain the reasoning that their income will continue at the same level at the new location. Consider the acceptance of the company's service or products in the new marketplace before considering the income for qualifying purposes. Document and explain how the Borrower's income will continue at the same level in the new location.

The following documentation is required:

Self-Employed greater than or equal to 5 years

- All pages and schedules of the most recent years personal tax returns*
- All pages and schedules of the most recent years business tax returns (with exception to sole proprietorships)*; AND
- Most recent years 1040 tax transcripts

* The business from which the borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the borrower has had an ownership share of 25% or more for the past five years consecutively

* For partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the Form 1003. If the business was in existence prior to the borrower having 25% or more ownership, proof the borrower has had 25% or more ownership for at least five years consecutively is required

* For sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the Form 1003 for the number of years the business has been in existence

NOTE: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable third party source, such as but not limited to an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, and/or partnership agreements

When 2 years of personal and/or business tax returns (if applicable) are provided, regardless of the reason (including but not limited to calculating rental income), all years' returns must be reviewed to determine the calculation that best represents the income currently being received.

Self-Employed less than 5 years

- All pages and schedules of the most recent 2 years personal tax returns
- All pages and schedules of the most recent 2 years business tax returns (with exception to sole proprietorships); AND
- Most recent 2 years 1040 tax transcripts

If any of the Borrower’s on the loan transaction are **self-employed** and a secondary business loss or losses have been established from documentation and/or information obtained during the underwriting process, the business loss or losses must be deducted from the total qualifying income.

If any of the Borrower’s on the loan transaction are a **W-2 wage earner** and a secondary business loss or losses have been established from documentation and/or information obtained during the underwriting process, the business loss or losses do not need to be deducted from the total qualifying income.

NOTE: If Borrower is less than 25% owner of a business, a 24-month average of the income can be used without obtaining all pages and schedules of the business tax returns. K-1 forms are required to show the borrower has less than a 25% ownership interest in a business. They can be used to calculate income without additional documentation. Borrower(s) who have less than a 25% ownership interest in a business are not considered self-employed.

Additional information and documentation may be requested to further determine the stability of the self-employed income used to qualify and/or to fully evaluate the impact of any established business loss or losses.

Depending on when the personal tax returns were filed, the documentation list above is required along with the following for all mortgage loan applications:

- Proof of filing
- 1040 federal tax extension (form 4868)
- Additional personal and/or business tax returns with all pages and schedules

The following is required for proof of filing:

- Evidence that the tax liability owed showing on the 1040 tax returns is paid in full OR
- Evidence the refund shown on the 1040 tax returns was received by the Borrower
  - If the borrower hasn't received the refund yet, documentation from the "Where's My Refund?" tool on the IRS website is acceptable
  - The refund amount in the documentation must match the amount shown on the borrower's tax return. The refund status does not need to be considered.

Rental

Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:

- 2-4 unit primary residence in which the borrower occupies one of the units
  - The rental income cannot be used to reduce the proposed housing expense. It can only be added as additional income
- 1-unit investment properties
- Conversion of the primary residence to an investment property

If the borrower does not own a principal residence, and/or does not have a current housing expense, rental income cannot be used. For more details, refer to https://selling-guide.fanniemae.com/sel/b3-3.1-08/rental-income#P1961. Rental income derived from other REO investment properties that have 1-4 units is permitted. Rental income received from Accessory Dwelling Unit's is not permitted.

When 2 years of personal and/or business tax returns (if applicable) are provided, regardless of the reason (including but not limited to calculating self-employed income), all years' returns must be reviewed to determine the calculation that best represents the income currently being received.

Short-term rental income is defined as income derived from the temporary rental of a property, typically for periods of fewer than 30 consecutive days. Short-term rental income from single-family residences is acceptable for investment properties only when there is a 2-year history showing on the most recent 2 years personal tax returns. All pages and schedules of the most recent 2 years personal tax returns (and business tax returns if applicable) are required to document the short-term rental income. Short-term rental income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. A short-term lease agreement is not acceptable documentation. Short-term/seasonal rental income from second homes cannot be used to qualify.

Any monthly net rental income must be added to the Borrower's total monthly income. Any net rental loss must be added to the Borrower's total monthly obligations.

Rental Income Calculation and Documentation

If using personal tax returns to calculate net rental income (loss), Schedule E does not account for the full amount of the mortgage payment for the rental property. Any depreciation, interest, taxes, and insurance must be added back in the cash flow analysis before subtracting the PITIA payment, to avoid double counting the expenses. Non-recurring property expenses may be added back, if documented accordingly. To verify a non-recurring expense (ex. new roof), the paid work order matching the expense amount on the tax return is required.

Refer to the Fannie Mae selling guide for the applicable rental income calculation method and documentation requirements - https://selling-guide.fanniemae.com/sel/b3-3.1-08/rental-income Refer to the Transaction Types guideline for additional restrictions when proceeds are being used to purchase another property.

Other Income Sources

Other sources of income are described in detail below.

- Alimony, Child Support and Maintenance Payments
- Auto Allowances
- Capital Gains
- Employment by a Relative, Property Seller, or Real Estate Broker
- Foster Care/Adoption
- Housing or Parsonage Allowance
- Interest & Dividend
- Military
- Non-Taxable
- Note(s) Receivable
- Disability
- Public Assistance Program
- Retirement, Annuity Income, and IRA Distributions
- Pension
- Royalty Payment
- Seasonal
- Social Security
- Teachers
- Temporary Leave
- Tips and Gratuity
- Trust
- Unemployment
- Union Members
- Veterans Affairs (VA) Benefits
- Restricted Stock Units (RSU)

Alimony, Child Support and Maintenance Payments

Alimony, child support and maintenance income will be considered when based on a divorce decree, court ordered separation agreement, court decree, or another legal agreement provided the payment terms confirm that the income will continue for at least the next 3 years. If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child for income continuance purposes.

When determining the acceptability of this income, the Borrower's regular receipt of the full payment due and any limitations on the continuance of the alimony, child support and/or maintenance payments (duration over which the income is required to be paid) must be taken into consideration. If a Borrower who is separated does not have a court order that specifies the term of the alimony, child support or maintenance payment income, the proposed or voluntary payments should not be considered as stable income.

Alimony, child support and/or maintenance payments income may be considered stable with documentation evidencing that the Borrower has been receiving full, regular, and timely payments for the most recent 6 months.
Alimony, child support and/or maintenance payments income is not considered stable when a Borrower has been receiving full, regular, and timely payments for less than six months or has been receiving full or partial payments on an inconsistent or sporadic basis. In those cases, the income can only be used as a compensating factor.

One of the following is required to document the income:

- A copy of a written legal agreement or court decree detailing all terms of the income type including the amount of the award and the time period over which the income will be received OR
- Any applicable state law that mandates child support document detailing the terms and conditions under which payments must be made

In addition, one or more of the following is required to document regular receipt of the full payment based on the number of months of the income is being used to qualify as described above:

- Court records
- Most recent personal tax returns with all pages and schedules
- All pages of the most recent bank statements
- Deposits slips
- A transaction log from the Borrower’s bank account OR
- Cancelled checks

Auto Allowances

Automobile allowances will be considered stable income for a Borrower who has been receiving the income for the past 2 years, provided all associated business expenditures are included in the calculation of the Borrower's total debt-to-income ratio. Auto allowance income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years auto allowance earnings OR

- Most recent pay stub(s) showing the year-to-date auto allowance earnings AND
- Year-end pay stubs for the most recent 2 years showing the auto allowance earnings OR
- W-2s for the most recent 2 years showing the auto allowance earnings

Income and Debt Approach
The full amount of the allowance is added to the Borrower's monthly income. The full amount of the lease or financing expenditure for the automobile must be added to the Borrower's total monthly obligations.

Capital Gains

A capital gain is typically a one-time transaction; and, therefore, should not be considered in determining income. However, if the Borrower has a constant turnover of assets that produces regular gains, the capital gain may be considered as qualifying income. If the Borrower has a documented two-year history of generating capital gains, an average of the gains and losses over the most recent prior 2-year period will be used as long as the Borrower(s) provides evidence that they own additional property or assets to support the average capital gain income for the next 3 years.

Personal tax returns must be reviewed to get an accurate picture of the average earnings from this source. For example, an asset sold during the year might be an income-generating asset, resulting in a reduction in future income after the sale. The following documentation is required:

- All pages and schedules of the most recent 2 years personal tax returns. In some cases, additional years tax returns may be required
- Evidence of ownership of additional property or assets

Employment by a Relative, Property Seller or Real Estate Broker

A Borrower employed by a family member or employed by a family-held business, property seller or real estate broker is eligible. If employed by a relative, the business accountant must verify that the Borrower is not self-employed by indicating their percentage of interest in the business. The income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.

Documentation may include but would not be limited to one of the following:

- Online sources such as a government website that shows the current owners
- CPA letter to verify ownership interest
- All pages and schedules of the most recent years personal tax returns
- 1040 tax transcripts

Foster Care/Adoption/IHSS

Foster Care, Adoption, and In-Home Supportive Services (IHSS) income may be considered acceptable if it has been verified that the Borrower has a 2-year history of providing services under a recognized state or county sponsored program and the Borrower is likely to continue to provide such services.

Foster Care, Adoption, and In-Home Supportive Services (IHSS) income may be considered stable with documentation evidencing that the Borrower has been receiving full, regular, and timely payments for the most recent 12 months. If the income has been received for less than 24 months, it may be used for qualification if it does not represent more than 30% of the total gross income.

The following documentation is required:

- Letter(s) from the organization providing the income
- All pages of the most recent bank statements and/or deposits slips and/or a transaction log from the Borrower's bank account

Housing or Parsonage Allowance

A non-military housing or parsonage allowance may be considered qualifying income, with documentation evidencing that the Borrower has been receiving regular and timely payments for the most recent 12 months. The housing allowance may not be used to offset the monthly housing payment.

The following income documentation is required:

- Written verification of employment or an Automated Verification of Income detailing the income OR
- Letter from employer AND
- Pay stubs reflecting the amount of the housing or parsonage allowance OR
- Terms and conditions under which the housing or parsonage allowance is paid AND
- Proof of receipt of housing allowance for the most recent 12 months

Interest & Dividend

A two-year average of interest and dividend income may be used to qualify if supported by sufficient assets after closing to support continuance of the interest or dividend income for at least 3 years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used for cash to close is deducted and the interest and/or dividend amount is recalculated based on the unliquidated portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend and one of the following types of income documentation is required:

- All pages and schedules of the most recent 2 years personal tax returns OR
- 2 years 1099s AND
- All pages of the most recent 2 months personal bank statements

Interest & dividend income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.

Military

Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations (BAS), quarters allowance (BAH), and proficiency pay may be counted as income and grossed up if they are verified as regular, continuous, and non-taxable. Refer to the Non-Taxable section.

The following documentation is required:

- Leave and Earnings Statement (LES)

Reserves or National Guard Called to Active Duty

Reservist or National Guard income may be considered acceptable if it is stable and a 2-year history of receiving the income is documented.

If one of the Borrower's is on active duty or has been called to active duty after the mortgage loan application has been made, the mortgage loan is in process, and the Borrower wants to refinance their primary residence, which the family does not currently occupy, the underwriter must confirm the following:

- The Borrower must certify that the subject property is their primary residence
- The subject property is vacant
- The Borrower must certify that they will return to the subject property as their primary residence upon completion of the temporary assignment AND
- The Borrower must provide documentation regarding the temporary assignment (orders supporting the assignment including duration)

The following documentation is required:

- Standard income documentation (Wage Earner) for non-reservist or national guard job AND
- Leave and Earnings Statement (LES)

Borrower Qualification

The Borrower must be qualified using the lesser of the following:

- Reservist or National Guard income OR
- Current job or a combination of Reservist or National Guard income, and current job pay (i.e., current employer pays the Reservist or National Guard their standard income minus Reservist or National Guard income)

Loan closing signings outside of the U.S. are only permitted for active military borrowers

Non-Taxable

Generally, income is taxable unless it is specifically exempted by law. Non-taxable income may show on the Borrower's tax return but is not taxed. Verify and document that the particular income source is non-taxable. Documentation that can be used for verification includes award letters, policy agreements, account statements or any other documents that address the non-taxable status of the income.

If the income is verified as non-taxable, and the income and its tax-exempt status are likely to continue, develop an adjusted gross income for the Borrower by adding an amount equivalent to 25% of the non-taxable income to the Borrower's income. Filing requirements for most taxpayers can be found on the IRS website.

Note(s) Receivable

Ongoing revenue received from Note(s) Receivable income may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of 3 years is required.

The following documentation is required:

- A copy of the Note(s) documenting the amount, frequency and duration of the payments AND
- Proof of receipt of the income for the most recent 12 months

Disability

Disability benefit payments (Social Security disability insurance benefits, maternity/parental benefits, etc.) may be treated as acceptable and stable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. The review date on a Social Security disability award letter is not considered a defined expiration date. Confirm the Borrower's current eligibility for the disability benefits by obtaining a statement from the benefit payer (insurance company, employer, or other qualified and disinterested party) documenting the amount and frequency of the payments.

In cases where the income does not have a defined expiration date, the income may be considered stable, predictable, and likely to continue. The Borrower will not be required to provide additional documentation evidencing continuance of the income.

Public Assistance Program

Public Assistance (e.g., Temporary Assistance for Needy Families (TANF)) may be considered as acceptable income provided the income has been received for the last 2 years and is expected to continue for the next 3 years. See the Unemployment Benefits section for details regarding the use of unemployment income.

The following documentation is required:

- Letters or exhibits from the paying agency establishing the amount, frequency, and duration of the payments
- Documentation showing a 2-year history of full, regular, and timely payments

Retirement, Annuity Income, and IRA Distributions

Retirement, Annuity Income, and IRA Distributions may be used to qualify. 3 years continuance of the monthly annuity payment, 401(k) distribution and/or IRA distribution must be documented. Monthly, periodic, or annual distributions are acceptable.

The following documentation is required for Retirement, Annuity, and IRA income:

- All pages of the 2 most recent months statements OR the most recent quarterly statement showing the current balance AND one of the following:
- The most recent award letter(s) / distribution agreement from the organization(s) providing the income
- Most recent year 1099
- All pages of the most recent bank statement showing direct deposit of the funds

NOTE: When the annuity documentation shows “lifetime benefit”, no additional documentation is required

If additional Retirement, Annuity Income, and/or IRA Distribution income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by.

Pension

Pension income may be used to qualify. Evidence of 3 years continuance must be documented with the exception of Military retirement, CALPERS, or Office of Personnel Management/Department of Defense pensions.

In addition to proof of continuance (when required), one of the following documents is required:

- The most recent award letter(s) from the organization(s) providing the income OR
- Most recent year 1099 OR
- The current statement from the organization(s) providing the income OR
- All pages of the most recent bank statement showing direct deposit of the funds

If additional Pension income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by.

NOTE: When the pension documentation shows “lifetime benefit”, no additional documentation is required

Royalty Payment

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of 3 years is required. Due to fluctuating Royalty Payments, the income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.

The following documentation is required:

- All pages and schedules of the most recent 2 years personal tax returns including the related supplemental income and loss schedule (Schedule E) AND
- Copy of the terms and agreements from the provider

Seasonal

Seasonal income may be acceptable if the Borrower has a 2-year history of seasonal employment. Due to fluctuations, average the W-2 amounts over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged

The following documentation is required:

- Most recent pay stub(s) (if available); AND
- W-2s for the most recent 2 years; OR
- Written confirmation from the employer(s) that there is a reasonable expectation that the Borrower will be rehired for the next season

If the information and documents received cannot meet the requirements, the Seasonal income should only be considered a compensating factor.

Social Security

Social Security income for retirement or long-term disability that the Borrower is drawing from their own account/work record does not have a defined expiration date and is expected to continue. Social Security income based on another person's account/work record or from the Borrower's own work record, but for the benefit of another (such as a dependent) may also be used to qualify.

The following documentation is required:

- The most recent Social Security Administration's (SSA) award letter OR
- Most recent year 1099 and all pages of the most recent bank statement showing proof of current receipt

Social security income has a maximum of 85% taxable income. The 15% non-taxable portion can be grossed up by a factor of 25% without requiring any additional documentation. If additional Social Security income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by.

Proof of 3 years continuance is required when the Borrower is drawing Social Security benefits from another person's account/work record or from the Borrower's own work record, but for the benefit of another (such as a dependent) to qualify.

Teachers

When a Borrower is employed as a teacher, the income may be paid over 10 or 12 months.

The following documentation is required:

- Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years earnings OR
- Most recent pay stub(s); AND
- W-2s for the most recent 2 years; OR
- The year-end pay stub when a W2 is not available

If the required documentation shows the number of pay periods per year, calculate the qualifying income using the documented pay structure. If the number of pay periods is not shown or not clear, qualify the Borrower using a 12-month average. If the Borrower does not qualify with a 12-month average, obtain a copy of fully executed employment contract with no contingencies or other documentation from the employer verifying the pay structure (i.e., 10 months or 12 months).

Stipends or supplemental income must be documented as regular and continuous.

Temporary Leave

During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the Borrower has the ability to repay the mortgage and all other monthly obligations. Leave ceases being temporary when the Borrower does not intend to return to their current employer or does not have a commitment from the current employer to return to employment.

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

Returning to work prior to the loan closing date
Use the regular employment income that was received prior to the leave

The following documentation is required:
- Confirmation from the employer that the Borrower will be employed at the same rate of pay that was earned prior to the leave OR
- The most recent pay stub showing the current rate of pay

NOTE: When a Borrower has taken leave under the provisions of FMLA, additional documentation is not required from the employer if the FMLA documentation provided confirms the borrower’s return to work.

Returning to work after the loan closing date
If the Borrower will return to work after the loan closing date, the qualifying income must be the lower of the Borrower's temporary leave income (if any) or regular employment income.

The following documentation is required:
- Terms and conditions of the temporary leave income
- Proof of receipt of the temporary leave income AND
- Proof of the regular employment income

Tips and Gratuity

Tip or gratuity income is considered compensation in addition to an employee's regular wages. An average of the tip income may be used to qualify if the Borrower has received it for the last 2 years.

The following documentation is required:
- Written Verification of Employment or Automated Verification of Income OR
- Current pay stub(s) AND
- Most recent two years W-2s OR
- Year-end pay stubs for the most recent 2 years if the W2 is not available

Trust

Confirm Trust Income and its continuance for at least 3 years by obtaining a copy of the fully executed trust agreement or trustee statement from a third-party trustee to document the following:

- Total amount of designated trust funds
- Terms of payment
- Duration of the trust AND
- What portion of income to Borrower is not taxable

Fixed trust payments require the most recent 12-month history of receipt. When the borrower is unable to document a 12-month history of receipt, the trust documentation must reflect all of the following:

- Fixed payments
- The borrower is not the grantor of the trust AND
- At least one payment must be received prior to loan closing

Variable trust payments require a minimum 24-month history of receipt to be documented with all pages and schedules of the most recent 2 years personal tax returns and the most recent months personal bank statement showing current receipt of the trust income.

Unemployment

Unemployment income received by seasonal workers*, must have been consistently received for the past 2 years, is predictable and is likely to continue. The unemployment income must clearly be associated with re-occurring layoffs. Due to fluctuations with Unemployment income, average the income shown on the tax returns over the past 24 months unless declining, then average the amount shown on the most recent tax return over 12 months.

The following documentation is required:

- All pages and schedules of the most recent 2 years personal tax returns

* When currently unemployed from seasonal work, a statement documenting all terms and conditions of the unemployment income including the continuance of the income is also required (review Seasonal).

Union Members

Union Members may hold several jobs during a year in which the Borrower may have multiple pay stubs and W-2s in the most recent 2 years. A 2-year history of Union employment is required to use the income to qualify. For a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the following documentation is required:

- Verbal verification of employment from the union dated in the last 30 calendar days confirming the Borrower is in good standing with the union AND the Borrower is employed by the same employer issuing the current pay stub used for qualification. If the union cannot provide confirmation, a verbal verification of employment with from the present current employer is required; AND
- Most recent pay stub(s) from the current union employer. If there has been more than one union employer in the current year, the last pay stub from each union employer is required to calculate the year-to-date earnings; AND

- W-2s from all union employers in the most recent 2 years, OR
- All pages and schedules of the most recent 2 years personal tax returns in lieu of the W2's from all union employers

Due to fluctuations with Union Members income, average the income shown on the W-2s from union employers over the most recent 2 years, unless the income is declining, then the most recent 12 months will be averaged.

Veterans Affairs (VA) Benefits

The Veterans Benefits Administration (VBA) provides a variety of benefits and services to servicemembers, veterans, and their families. VA Benefits are non-taxable. Develop an adjusted gross income for the Borrower by adding an amount equivalent to 25% to the amount shown on the most recent award letter.

The following documentation is required:

- Copy of the most recent award letter detailing the amount of the payment received OR
- Certificate of Eligibility detailing the amount of the payment received OR
- All pages of the most recent bank statement showing direct deposit of the funds in the borrower's name

Restricted Stock Units (RSU)

Income from Restricted Stock Units (RSUs) may only be used as qualifying income if the income has been consistently received from the current employer for the most recent 12 months as identified on the year-end pay stubs, W-2s, a WVOE or an Automated VOI. Review all time-based requirements below.

When RSU income has been received for <u>more than 24 months</u>, documentation must demonstrate that all the following requirements are met to use the income for qualification:

- Current vesting schedule showing past and future vesting
- The Borrower is currently employed by the employer issuing the RSU's
- The stock is publicly traded

When RSU income has been received for <u>12 months and less than 24 months</u>, documentation must demonstrate that all the following requirements are met to use the income for qualification:

- The current vesting schedule indicates the income will continue for a minimum of 2 years at a stable or increasing level as the prior 2 years
- The qualifying income is supported by future vesting based on the stock price and vesting schedule
  - Future vesting income is calculated based on the lower of the current stock price or the 200-day moving average for the most recent 12- months reporting at the time of application per barchart.com
  - 200- Day moving average of share price x total number of distributed vested shares (pre-tax) in the most recent 24 months divided by 24 months
- The Borrower is currently employed by the employer issuing the RSU's
- The stock is publicly traded

Note: When the borrower has a history of income ranging from 12-24 months, the lender may use the actual number of months the borrower has received the income rather than 24 months

Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to the following:

- Future income (does not apply to purchase of an investment property)
- Foreign income
- Income derived from sources outside the United States
- Income derived from the subject property with land being leased to another party
- Income derived from farm income when the property is being used for a specific purpose, such as a vineyard or bottling barns
- Income derived from personal gambling winnings
- Income determined to be temporary or one-time in nature
- Lump sum payments such as inheritances or lawsuit settlements
- Lump sum payments of lottery earnings that are not on-going
- Mortgage credit certificates
- Non-incidental income received from farming/agricultural use of a property
- Rental income received from the Borrower's 1-unit primary residence or Second Home
- Rental income received from Accessory Dwelling Units
- Rental income from boarding houses (properties with individual room rentals)
- Retained earnings in a company
- Stock options
- Taxable forms of income not declared on personal tax returns
- Trailing co-borrower income
- Unverifiable income
- VA education benefits
- Self-employed income derived from any cannabis related business
- Asset Depletion
- Payment In-Lieu of Medical Coverage/Cafeteria Plans
- Cash deposits to verify receipt of rental income

Property Valuation

The Property Valuation is a process of determining the market value of a property. This valuation process is typically performed by a licensed appraiser using industry standards and protocols to determine the value of a property.

Valuation Methods

Valuation methods are defined as follows and detailed throughout this chapter:

- Full Interior Appraisal
- Exterior Drive-By Appraisal
- Prior Use Appraisal
- Automated Valuation Model (AVM)
- Desktop Review
- Property Condition Report

Regardless of type, each valuation method will provide the detail to evaluate the following:

- Adequate support for the value of the mortgaged property
- Present and future marketability of the mortgaged property
- Completeness and correctness of the appraisal forms and exhibits
- Applicability and timeliness of data used to determine marketability
- Consistency, logic, and accuracy of the appraisal type used
- Overall condition and quality of the mortgaged property

Valuation hierarchy, ordered from the most comprehensive to the least

- Full Interior Appraisal
- Exterior Drive-By Appraisal
- Automated Valuation Model (AVM)

Valuation method requirements vary by mortgage loan program. When multiple valuation methods are obtained, the value used will be determined by the most recent and/or more comprehensive method ordered by Spring EQ. Refer to the Spring EQ Lending Matrices for additional information.

Full Interior Appraisal

A Full Interior Appraisal (1004/1025/1073) is completed by a licensed appraiser who must access the property's interior and exterior for a complete property evaluation. The report should accurately reflect the market value, condition, and marketability of the property along with the appraiser certifying all information contained in the report is in compliance with Appraiser Independence Requirements (AIR), Uniform Appraisal Dataset (UAD) and Uniform Collateral Data Portal (UCDP). The appraiser should also provide an objective and unbiased opinion of market value and report any unfavorable conditions. A 1004D is required to recertify the value of a full interior appraisal ordered by SEQ that is older than 90 days.

Exterior Drive-By Appraisal

An Exterior Drive-By appraisal (Hybrid or 2055) is an exterior only visual inspection completed by a Spring EQ vendor to evaluate the exterior and determine the property's value. The conclusion is based on the visual inspection along with online research such as, county assessor records, aerial imagery, and historical and current MLS entries. A third party can provide the subject property exterior information while the appraiser must determine that the information is accurate and reliable to produce the drive-by appraisal.
The appraiser's analysis should adequately describe the subject property, document the analysis and valuation process, and support the appraised value conclusion.

Prior Use Appraisal

A prior use appraisal is an existing full interior appraisal that was completed prior to or in conjunction with the mortgage loan application from a lender other than Spring EQ. When a prior use appraisal is used to determine the property value, a Desktop Review and Property Condition Report are required to recertify the value shown on the prior use appraisal remains valid.

Recertification of a prior use appraisal is acceptable when the following requirements are met:

- Report has been completed within 12 months of settlement date
- Current appraisal provided must be on form 1004 (Single family), 1025 (multi-family), or 1073 (Condo)

A Desktop Review and Property Condition Report are required. Both will be ordered by Spring EQ to validate any use of a prior use appraisal. A 1004D is required to recertify the value of a full interior appraisal ordered by SEQ that is older than 90 days.

Prior use appraisals are not acceptable once a valuation method ordered by Spring EQ has been received.

Automated Valuation Model (AVM)

An AVM is a report by a computer program that uses real estate information, such as comparable sales, property characteristics, tax assessments, and price trends to provide an estimate of value for a specific property.

When an AVM is used to determine the property value, a Property Condition Report is required. Review the Property Condition Report section below for additional information.

Spring EQ systems will review the AVM and evaluate the confidence score and Forecast Standard Deviation data. The system will determine if the AVM is acceptable for lending purposes.

The maximum line amount or loan amount will be determined by the FSD score as indicated below:

- FSD less than or equal to 0.13
    - Max loan amount + Unpaid principal balance = 90% of the value shown on the AVM
- FSD greater than 0.13 and less than or equal to 0.20
    - Max loan amount + Unpaid principal balance = 80% of the value shown on the AVM

Max CLTV will be based on the qualifying FICO score and occupancy. Review the matrices for FICO score and occupancy requirements. Example below.

Example: AVM value- $200,000 x 90% = ***$180,000***
$180,000 - $100,000 (1st Lien Balance) = $80,000 max loan amount

Desktop Review

The Desktop Review is performed by a licensed appraiser to determine that the value conclusion of the prior use appraisal is reasonable and adequately supported. The Desktop Review should also identify any material deficiencies that could compromise the reliability of the prior use appraisal.

A Desktop Review is acceptable when the following requirements are met:

- The risk score is low or moderate
- No additional review recommended by reviewer
- The commentary contains no comments that adversely impact value, marketability, or condition of the property
- The market trend is either neutral or increasing

NOTE: The Desktop Review is also known as a Collateral Desktop Analysis (CDA) with certain vendors.

Property Condition Report

A Property Condition Report is used in conjunction with an AVM or a Prior Use Appraisal and will provide an exterior visual inspection of the subject property.

A Property Condition Report is acceptable when the following requirements are met:

- No deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements
- Subject condition is average or better
- No for sale or rent sign present
- No zoning violations or potential zoning changes
- Subject conforms to the neighborhood

NOTE: The Property Condition Report is also known as a Property Condition Inspection (PCI) with certain vendors.

Additions Without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property. For more details, refer to https://selling-guide.fanniemae.com/sel/b4-1.3-05/improvements-section-appraisal-report

Unacceptable Appraisal Practice

The following are examples of unacceptable appraisal practices:

- Development of a valuation conclusion based either partially or completely on the race, color, or national origin of either the prospective owners or occupants of the mortgaged property or of the present owners or occupants of the properties in the vicinity of the mortgaged property
- Development and/or reporting an opinion of market value that is not supportable by market data or is misleading
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited
- Misrepresentation of the physical characteristics of the mortgaged property, improvements, or comparable sales
- Failure to comment on negative factors with respect to the subject neighborhood, mortgaged property, or proximity of the mortgaged property to adverse influences
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the mortgaged property and the prior sales of the mortgaged property and the comparable sales
- Selection and use of inappropriate comparable sales
- Failure to use comparable sales that are locationally and physically similar to the mortgaged property
- Creation or use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property
- Use of adjustments to the comparable sales not reflective of the market's reaction to the differences between the mortgaged property and the comparable sales
- Not supporting adjustments in the sales comparison approach
- Failure to make adjustments when they are clearly indicated
- Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the mortgaged property without the appraiser's verification of the information from a disinterested source
- Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the Originator or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments
- Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice in place as the effective date of the appraisal
- Failure to address and note adverse factors or conditions that affect value or marketability with respect to the neighborhood, site, or improvements
- Use of unsupported descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect
- Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect and may or may not affect the use and value of a property
- Use of unacceptable terminology including but not limited to:
    - Pride of ownership, no pride of ownership, and lack of pride of ownership
    - Poor neighborhood
    - Good neighborhood
    - Crime-ridden area
    - Desirable neighborhood or location and
    - Undesirable neighborhood or location

Other subjective terminology that can result in erroneous conclusions is equally unacceptable.

FEMA Disaster Area

Refer to the list of affected counties within a declared major disaster area (published by FEMA) where individual assistance was granted.

Prior to closing, a property inspection (completed by a Spring EQ vendor) is required for any loan secured by a property in the affected area where individual assistance was granted.

If the subject property is located in one of the impacted counties within a FEMA declared major disaster area (published by FEMA) where individual assistance was granted, and the collateral valuation was completed prior to the incident period end date, one of the following is required:

- Collateral valuation (completed by a Spring EQ vendor) after the disaster incident period end date OR
- Post disaster inspection confirming the property was not adversely affected by the disaster

When FEMA hasn't posted an incident period end date while the loan is in process, an appraisal dated on or after the disaster declaration date can be used to confirm the property was not adversely affected by the disaster until a property inspection has been received.

Property Flipping

When the loan is HPML and it has been determined that the subject property has been flipped (unless exemptions apply), an additional full interior appraisal is required from a different licensed appraiser if the price reflected in the consumer's purchase agreement is more than the seller's acquisition price as follows:

- More than a 10 percent price increase if the seller acquired the property in the past 90 days
- More than a 20 percent price increase if the seller acquired the property in the past 91 to 180 days

An additional appraisal is not needed for a HPML loan if the property was acquired from one of the following:

- A government agency
- A person who acquired title through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure through that person's exercise of rights as the holder of a defaulted loan
- A nonprofit acquiring property through a government program
- A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership or asset partition
- An employer or relocation agency for employee relocation
- A service member deployed or reassigned after purchasing the property

The appraisal from the seller's acquisition or finance of the property to satisfy the requirement for an additional appraisal cannot be used.

Insurance Requirements

Homeowners Insurance

The hazard insurance policy is acceptable if the policy shows at least one property owner as the insured, the subject property address, the effective dates, the total annual premium, and the dwelling coverage amount when required. Lender placed insurance is not permitted.

If a property insurance declaration page specifically cites any exclusions or limitations of current coverage of any of the following required perils, the borrower must obtain an acceptable stand-alone policy that provides coverage for the limited or excluded peril. Review the coverage section below.

- Fire
- Lightning
- Explosion
- Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
- Hail
- Smoke
- Aircraft
- Vehicles
- Riot or civil commotion

NOTE: If there is a specific exclusion on the policy that is not listed above, no additional coverage information will be required

Maximum Line Amounts or Loan Amounts less than $250,000-

- Use of existing coverage amount is permitted. Replacement cost estimator or increases in coverage are not required regardless of outstanding lien amounts

Maximum Line Amounts or Loan Amounts greater than or equal to $250,000-

- Existing coverage amount must be equal to the lesser of the following:
  - 100% of the insurable value of the improvements, as established by the property insurer; OR
  - The unpaid principal balance of all existing liens against the subject property, plus the new Maximum Line or Loan Amount; OR
  - The “Total Estimate of Cost-New" amount shown in the cost approach section of the full appraisal is lower than or equal to the coverage amount

NOTE: If the dwelling coverage is insufficient, a homeowners insurance policy with “Guaranteed Replacement Cost” is acceptable. Ordinance or Law coverage is acceptable as additional dwelling coverage. When an RCE is not available in a specific state, the insurance agent must confirm the dwelling coverage covers 100% of the replacement cost.

Flood

Flood Determination

When the flood determination form shows the community doesn't participate in the National Flood Insurance Program (NFIP) and the property is in a flood zone, the loan is ineligible.

Flood Insurance

Flood insurance is required if the property and any of its improvements are located in a flood zone as shown on the flood determination. Flood zone A and V both require flood insurance. The flood insurance policy is acceptable if the policy shows at least one property owner as the insured, the subject property address, the effective dates, the total annual premium, and the dwelling coverage amount. The address on the flood insurance policy must match the address on the flood certificate. Lender placed insurance is not permitted.

- The required dwelling coverage amount is:
  - **NFIP Policy**: the lower of the unpaid principal balance of all existing mortgage liens and the Spring EQ proposed loan or max line amount OR the $250,000 max permitted coverage amount OR coverage equal to the replacement cost value (RCV)* of the structure
  - **Private Policy**: the lower of the unpaid principal balance of all existing mortgage liens and the Spring EQ proposed loan or max line amount OR coverage equal to the replacement cost value (RCV)* of the structure

Flood insurance policies and/or the mortgagee clause updates issued on Acord forms are not acceptable

***** When the RCV does not show on the flood policy, a Replacement Cost Estimator (RCE) showing the RCV is acceptable. The RCV amount cannot exceed the dwelling coverage amount. When an RCE is not available in a specific state, the insurance agent must confirm the dwelling coverage covers 100% of the replacement cost.

Private flood insurance policies must contain a compliance aid statement: This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation

If the property is NOT in a flood zone and the Borrower elects to purchase flood insurance, the premium must be included in the proposed housing expense, but the coverage does not need to be checked and the mortgagee clause does not need to be updated.

Renewing Policies

Renewal policies for homeowners and/or flood insurance are required if the policy will expire or has expired prior to the disbursement date. Renewal policies must show at least one property owner as the insured, the subject property address, the effective dates, the total renewal premium, and adequate coverage.

When the homeowners and/or flood insurance policy will expire or has expired prior to the disbursement date, a balance is due, and the first mortgage does not escrow, one of the following is required:

- Proof from the insurer that there is a payment plan in place OR
- Proof the insurance premium due is paid in full OR
- Confirm the outstanding insurance premium balance is to be paid with loan proceeds

NOTE: When the renewal policy is not available and the senior lien does not escrow, 3 months of the premium must be paid with loan proceeds.

Master Insurance Policy for Condo

The master insurance policy for condo is acceptable if the policy shows the effective dates, at least $1,000,000 in general liability coverage per occurrence, and references the subject property address or condo project name.

Walls-In

When the master insurance policy does not contain walls-in coverage, an H06 policy is also required showing the subject property address, the effective dates, and the total annual premium. The annual premium must be included in the proposed housing expense.

Mortgagee Clause

The mortgagee clause is only required to show on homeowners and/or flood insurance policies when:

- The maximum line or loan amount is greater than or equal to $250,000, regardless of whether the current first lien holder escrows OR
- The maximum line or loan amount is less than $250,000 and the first lien holder does not escrow

NOTE: The mortgagee clause is not required to show on master insurance polices

Mortgagee Clause- Shellpoint Mortgage Servicing ISAOA/ATIMA P.O. Box 7050 Troy, MI 48007-7050