PROGRAM NAME:	5/1, 7/1, 10/1 Libor ARMs Jumbo ****OPTION II **** 15-Year Fixed Jumbo, 30-Year Fixed Jumbo
REVISION DATE:	2/7/2019

PRODUCT DESCRIPTION:

- 5/1 ARM 2/2/5 caps. 7/1 and 10/1 ARM Products 2/2/5 caps. See rate sheet for margin. 30-Year Amortization.
  An adjustable rate mortgage fixed for the ARM program selected, then adjusting to a one (1) year adjustable rate mortgage based on 1-year Libor. The initial interest rate adjustment will be 60, 84 or 120 months after the first month following loan closing. Thereafter, the interest rate will be subject to change annually.
- 15-Year, 30-year.
- Loans are not assumable

MAXIMUM LOAN AMOUNTS:

Note – All loan amounts must be even dollar amount (i.e., $100,000.01 not acceptable)

Jumbo Loans (QM) Eligibility Matrix

Fixed Rate and Hybrid Arm Products

Primary Residence | High LTV | Purchase Only

Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount
Purchase Only	1	740	90%*	$1,000,000
		720	85%*	$1,000,000

*****NO MORTGAGE INSURANCE*****
*****MAX DTI 40%*****

Primary Residence | Purchase, Rate & Term Refinance

Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount
Purchase or Rate &Term Refinance	1	720	80%	$2,000,000
		700	80%	$1,500,000
		680	70%	$1,000,000

Primary Residence | Cash-Out Refinance

Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash-Out
Cash-Out Refinance	1	700	75%	$2,000,000	$500,000
		700	70%	$2,000,000	$500,000

SEE NEXT PAGE FOR RESERVE REQUIREMENTS

MAXIMUM LOAN AMOUNTS (continued):

Second Home				
Transaction Type	**Units**	**FICO**	**Maximum LTV/CLTV/HCLTV**	**Maximum Loan Amount**
Purchase or Rate & term Refinance	1	720	80%	$1,000,000
			75%	$1,500,000
			70%	$2,000,000
Cash-Out Refinance	1	720	70%	$1,000,000 (Maximum cash-out $350,000)

- The minimum loan amount is $1 over the max limit that Fannie or Freddie would purchase. In most areas that will be the standard conforming loan limit. In some areas it would be the high balance limit.
- Interested party contributions limited to 6% of the SALES PRICE.
- Texas Home Equity loans are ineligible (Texas 50(a)(6))
- First-time homebuyers maximum loan amount $1,500,000. Max LTV 80%, Owner Occupied Only, 12 mos PITIA reserves required.

RESERVE REQUIREMENTS:

All loans require a minimum cash reserve. Reserves must be verified and comprised of liquid assets that the borrower can readily access. If a borrower owns multiple financed properties, the borrowers must have an additional six (6) months cash reserves for each additional property. Equity lines of credit, gift funds, and cash out from refinance transactions are not acceptable sources to meet the reserve requirement.

- If LTV/CLTV ≤ 80%:
  - Loan amount ≤ $1,000,000; 6 months PITIA (subject) reserves required.
  - Loan amount > $1,000,000 to ≤ $2,000,000; 9 months PITIA (subject) reserves required.
  - Second Home > $1,000,000 to $2,000,000; 12 mos PITIA
- If LTV/CLTV > 80%:
  - Loan amount ≤ $1,500,000; 18 months PITIA (subject) reserves required.
  - Loan amount > $1,500,000 to ≤ $2,000,000; 24 months PITIA (subject) reserves required.
- Cash out > $350,000; 24 months PITIA (subject) reserves required.
- Additional 6 months reserves required for each additional financed property owned.
- Vested funds from individual retirement accounts (IRA/SEP/Keogh/401K accounts) are acceptable sources of funds for reserves. If the retirement assets are in the form of stocks, bonds, or mutual funds, in order to be considered for reserves, the account must be discounted by 30% to account for market volatility.

Please refer to additional asset guidance starting on page 11.

ELIGIBLE BORROWERS:

- Owner Occupants US citizens and US naturalized citizens
- ALL borrowers must have valid Social Security Number
- Permanent resident aliens. If the borrower is a permanent resident alien, the file must contain a copy of a valid resident alien card.

ELIGIBLE BORROWERS (continued):	▪ First Time Homebuyers are permitted with restrictions. See Loan Amount and LTV Matrix. A "First Time Homebuyer" is defined as a Borrower who had no ownership interest in a property within the last three (3) years from the application date.
INELIGIBLE BORROWERS:	▪ Non-occupant co-borrowers ▪ Non-permanent resident aliens ▪ Foreign nationals ▪ Trusts ▪ Corporations / Partnerships, LLCs. ▪ Life Estates ▪ Illinois Land Trusts ▪ Borrowers with an ITIN (Individual Taxpayer ID Number) rather than a Social Security Number ▪ Borrowers with Diplomatic Immunity ▪ Community Land Trusts
ELIGIBLE PROPERTIES:	▪ Single Family detached. ▪ Detached PUD's ▪ Attached PUD's (FNMA eligible only on a case by case basis.) ▪ **Rural properties will be considered but will be carefully reviewed.**
APPRAISALS AND PROPERTY:	▪ Appraisal validity period 120 days – No re-certifications of value allowed. ▪ For loan amounts ≤ $1.5mm - One (1) full appraisal is required. For loan amounts > $1.5mm – Two (2) full appraisals required. NOTE: Correspondent clients who are approved by Crescent to order their own appraisals may do so for the first appraisal. HOWEVER, if a second appraisal or review appraisal is needed the second or review appraisal MUST be ordered through Crescent's appraisal department. ▪ Maximum financing is acceptable when property values are stable or increasing. The value of subject property must be in line with the home prices in the subject's market area. ▪ Generally, appraisals must not contain comparables greater than six (6) months from the report date. Comparables between six (6) and 12 months are permitted on a limited basis with an explanation from the appraiser. Comparables older than 12 months are not permitted. ▪ For any property in a declining or distressed market, maximum LTV/CLTV/HCLTV financing is subject to reduction. A market will be deemed "declining" if: 1. Any appraisal/valuation method used as part of the transaction indicates in the Neighborhood Section that Property values are declining; or 2. The subject property is located in an area that is classified as a declining or distressed market by Investor (subject to change). ▪ For properties that are deemed declining by an appraisal/valuation method only, the maximum LTV/CLTV/HCLTV for that product type must be reduced by five percent (5%). Max LTV 85%. ▪ No escrow holdback allowed for completion or repairs to property ▪ Properties purchased by the seller within 90 days of the executed contract are not eligible.

APPRAISALS AND PROPERTY (continued):	▪ Land-to-Value: The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.
INELIGIBLE:	▪ Texas 50(a)(6) (Texas Equity Loans) ▪ HPML Loans ▪ Seller held subordinate financing ▪ Leaseholds ▪ Investment properties ▪ Multi-family homes ▪ Manufactured homes ▪ Condos ▪ 1 x CP or modifications of construction loans ▪ Properties listed in last 6 months – Refinance ▪ Non-occupant co-borrower ▪ Temporary buydowns ▪ Log, Earth, dome homes or other unique building types ▪ Farms ▪ Properties greater than 10 acres ▪ No properties subject to oil or gas leases. ▪ 4 Percent QM-Rebuttable Presumption (Higher Priced Covered Transactions). ▪ Contracts for Deed/Land Contracts ▪ Mixed use properties ▪ Rural properties may be considered as an exception. Will be reviewed with comps that are reasonable and no agricultural influences. ▪ Properties with agricultural zoning although agricultural/residential zoning is eligible ▪ Properties with income producing attributes. ▪ Factory Built Homes ▪ Hobby Farms ▪ Non-arm's length transactions: All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is a non-arms' length transaction and the related loan is not eligible for purchase. The following non-arm's length transactions are eligible provided that such transactions and the related circumstances are properly documented: o Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances. o Property seller acting as his or her own real estate agent. o Borrower acting as his or her own real estate agent o Borrower is the employee of the originating lender o Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).

SELLER CONTRIBUTIONS:	6% of the loan amount may be used to pay closing cost and/or prepaids.

CREDIT REPORTS:	▪ All inquiries within the past 120 days must be explained by the borrower with a signed statement as to the status of these accounts.
	▪ Bankruptcy/ Foreclosure/Notice of Default /Deed in Lieu/Foreclosure/Short Sales.
	  o At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.
	  o A satisfactory letter of explanation for the event from the borrower is required.
	  o Borrower must show reestablished credit and meet the minimum credit requirements.
	▪ A three bureau merged report will be ordered through DU – See Matrix for required credit scores.
	▪ No late payments in the last 24 months on ANY mortgage or rental account. Must verify minimum 24 month rental/mortgage history.
	▪ 3 Credit scores required for each borrower.
	▪ No modified mortgages
	
	MINIMUM CREDIT REQUIREMENTS
	  o Each borrower contributing income must have a minimum of three (3) open and active trade lines for 24 months with 24 months history. Two (2) of the three (3) trade lines must show activity within the last 12 months from the date of application.
	  o 1 trade line must be an installment loan, rental, or mortgage account.
	  o Authorized user accounts are not acceptable as a trade line.
	▪ We will consider a borrower not meeting the above trade line requirement if the credit history meets the following:
	  o No fewer than eight (8) trade lines are reporting, one (1) of which must be a mortgage or a rental history.
	  o At least one (1) trade line has been open and reporting for a minimum of 12 months.
	  o The borrower has an established credit history for at least 10 years.
	▪ Non-traditional credit references are not considered as acceptable trade lines.
	▪ No major adverse credit reported in the last 24 months on revolving or installment accounts.
	▪ Adverse Credit: Generally, no public records are permitted within the past 24 months. No significant derogatory credit ratings on any trade line activity within the most recent 24 months (including installment or revolving accounts).
	▪ Delinquent Debt: Tax liens, judgments, past-due accounts, charge-offs:
	  o Must be brought current at or prior to closing
	  o Cash-out proceeds from subject transaction may not be used to satisfy delinquent debt.
	▪ Payment Plans – Prior tax lien/tax liabilities
	Not allowed and must be paid in full for both current and previous tax years.
	▪ Mortgage/Rental history:
	  o A minimum of twenty-four (24) months verified housing history is required.
	  o Mortgage payment history must reflect 0 x 30 late payments in the most recent 24 months.
	▪ Mortgage/Rental history may be documented as follows:
	  o A 24 months mortgage payment history from an institutional lender, as verified through (i) credit bureau report reference for 24 months, (ii) 24 months canceled

CREDIT REPORTS (continued):	checks, or (iii) most recent 12 months canceled checks with a VOM for the prior 12 months. ○ For rental verification a standard VOR completed by a professional management company or 24 months bank statements or canceled checks are required. ○ If a borrower is refinancing a privately held mortgage the following payment verification requirements apply: • The privately held mortgage payments must be verified with either canceled checks or bank statements (if the payment is automatically withdrawn from the borrower's account). • Evidence must be included in the loan file that the lien being paid off is a current recorded lien against the subject property. ▪ Liens, Judgments, and Collections ○ Satisfactory explanation from the borrower for any delinquent credit is required. ○ Borrower must pay off all delinquent credit that has the potential to impact the lien position. ○ Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $250.00 or if the total balance of all accounts is $1000.00 or less. ▪ A soft pull of credit will be required prior to closing, please allow for this when scheduling your closings
CREDIT DOCUMENTATION:	▪ Loans must be approved in DU but full documentation is required as on a manual underwrite (no documentation relief). ▪ All credit documents, including the title commitment, must be no older than 90 days from the note date.
QUALIFYING RATIOS AND MAX DTI:	▪ For fixed rate products, borrower qualifies at the note rate. ▪ 5/1 LIBOR ARM: Qualify at the higher of the note rate plus 2% or the fully indexed rate**.** ▪ 7/1 and 10/1 LIBOR ARM: Qualify at the higher of the note rate or fully indexed rate. Fully indexed rate = Index + Margin The standard maximum Debt to Income ratio (DTI) ratio allowed is 43% for all loans.
PURCHASES:	▪ Must adhere to Agency guidelines ▪ LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property ▪ If the seller has taken title to the subject property within ninety (90) days prior to the date of the sales contract the following requirements apply: ○ Property seller on the purchase contract is the owner of record. ○ Second full appraisal is required. ○ Increases in value should be documented with commentary from the appraiser. Loans that are Bank or relocation sales are exempt from the above requirements. ▪ Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sale contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments, and ceiling fans are not considered personal property. ▪ Maximum 6% seller contribution

RATE-TERM REFINANCE:	▪ Properties listed for sale are ineligible for refinances unless the listing was withdrawn (or expired) prior to the date of loan closing. ▪ Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was a cash-out, including the pay-off of a non-seasoned subordinate lien. ▪ For properties purchased within six (6) months of application date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the closing statement from the subject acquisition transaction. ▪ For properties purchased more than six (6) months prior to the application date the current appraised value may be used to calculate the LTV. ▪ Inherited properties are exempt from the seasoning requirement. LTV will be calculated off current appraised value. ▪ The mortgage amount may include the: 1. Principal balance of the existing first lien 2. Payoff of a purchase money second lien seasoned a minimum of 12 months with no draws exceeding $2,000 within the past 12 months from the date of application. Withdrawal activity must be documented with a transaction history of the line of credit. 3. Payoff of a co-owner pursuant to a written agreement 4. Financing of the payment of prepaid items and closing costs. 5. Payoff of a non-purchase second lien seasoned a minimum of 12 months from the date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from the date of application. Withdrawal activity must be documented with a transaction history of the line of credit. ▪ Cash back to the borrower is limited to the lesser of $2000 or 1% of the new mortgage loan.
DELAYED FINANCING REFINANCE:	▪ Delayed Financing refinances in which the borrowers purchased the subject property for cash within ninety (90) days from the date of application are eligible. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are not subject to cash-out refinancing program limitations. ▪ The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property. ▪ A Delayed Financing may be treated as a Rate/Term refinance transaction if the following criteria are met: o Primary Residence only o 5% reduction to the LTV/CLTV per matrix on pages 1 and 2. o No asset depletion o Property not listed for sale since acquisition o Property not located in Texas
CASH-OUT REFINANCE:	▪ Borrower must have held title for a minimum of 6 months from closing. Inherited properties are exempt from this seasoning requirement. LTV will be calculated off the current appraised value. ▪ Properties that have been listed for sale within the 6 months prior to loan application are not eligible for a cash-out refinance. If the property was listed within the previous 6-12 months from application date, a letter from the borrower explaining the reason for retaining the property is required.

CASH-OUT REFINANCE (continued):	▪ If the subject property was purchased within the 6-12 month period prior to the application date for the new loan the LTV will be based on the lesser of the sales price or the current appraised value. ▪ If the subject property was purchased more than 12 months from the application date for the new loan LTV will be based off the current appraised value. ▪ Texas cash-out refinances are not eligible. ▪ Any refinance of non-seasoned subordinate liens that were not used entirely to purchase the subject property will be considered a cash-out refinance and subject to the cash out limits for the program. Subordinate liens included home improvement liens, home equity lines of credit (HELOC), and second mortgages obtained for the purpose of taking equity out of the property. ▪ Cash-out is limited to the maximum amounts stated on the Product Matrix (page 1).
CONTINUITY OF OBLIGATION:	For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. Continuity of obligation is met when any one of the following exists. o At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced. o The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor. o The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement. o The borrower has recently been legally awarded the property (divorce, separation, or dissolution of a domestic partnership). Loans with an acceptable continuity of obligation may be underwritten, priced, and submitted as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.
CONSTRUCTION TO PERMANENT: CONSTRUCTION TO PERMANENT (continued):	Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria: ▪ Borrower must have held title to the lot for a minimum of 6 months prior to the closing date of the permanent loan. ▪ The LTV will be based on the current appraised value of the subject property if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan. ▪ If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of: a) The original purchase price of the lot plus the total acquisition costs (sum of construction costs) OR b) The current appraised value of the subject property. ▪ Appraiser's final inspection is required ▪ A certificate of occupancy is required for the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided. ▪ Cash-out is limited to the maximum amounts stated on the Product Matrix. ▪ Construction loan refinances in which the borrower has acted as builder are not eligible for purchase. ▪ Single Close Construction to Permanent Financing is not eligible.

SUBORDINATE FINANCING:	Secondary or subordinate financing is allowed as follows: ▪ New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted. ▪ Maximum LTV/CLTV/HLTV for subordinated HELOCS will be based on the fully drawn balance. ▪ Subordination of an existing loan is permitted up to the maximum LTV allowed. ▪ Cash-out transactions are not eligible for subordination of existing liens. ▪ Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties. ▪ In cases where a HELOC is resubordinated to the subject mortgage, monthly payment amount on the credit report will be used. If no monthly payment amount is shown on the credit report, 1% minimum payment of the maximum line amount will be used for qualifying. If HELOC has a zero balance and no draws within 24 months of application date no payment need be included in the DTI. Withdrawal activity must be documented with a transaction history for the line of credit.
WELL & SEPTIC TANK INSPECTIONS:	Well inspections are required on new construction. Septic Tank inspections are required on new construction.
FLOOD INSURANCE:	Flood insurance is required on all properties located in a SFHA (Special Flood Hazard Area). The minimum amount of flood insurance coverage is the lowest of: • 100% replacement cost of the insurable value of the improvements; • The maximum insurance available from the NFIP; or • The unpaid principal balance of the mortgage loan
EMPLOYMENT AND INCOME:	**Income Sources and Calculation of Income** All income sources and method of income calculation must meet most recent Agency/Appendix Q Standards for Determining Monthly Debt and Income. The non-taxable portion of fixed income such as Social Security income, VA benefits, Pensions, and Annuity income may be grossed-up twenty five percent (25%). Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income. **Employment and Income Stability** Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower. All borrowers contributing income for qualifying must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment during the previous two (2) years.

EMPLOYMENT AND INCOME (continued):	**Income Documentation Requirements**

EMPLOYMENT AND INCOME (continued):

Income Documentation Requirements

Important Notice regarding Documentation: Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25% or more of a corporation, limited liability company, partnership, sole proprietorship or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection that follows. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower's salary or other income to establish eligibility. <u>**All required documentation as described her and in the following sections must be obtained prior to closing and submitted in the closed loan file.**</u>

Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- W-2's from all employers for the past two (2) years. All W-2's must be computer generated.
- Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.
- Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.
- Signed IRS form 4506-T. The 4506T transcripts will be obtained from the IRS prior to closing and used to validate the income documentation used to underwrite the loan. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (paystubs, W-2's, tax returns, etc.) as provided by the borrower must be satisfactorily reconciled.
- If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required.
- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2 year history of the receipt of the income is required. This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a YTD paystub. Note: A YTD paystub, W-2's and tax returns alone will not satisfy the documentation requirements for bonus, commission or any other non-base salary compensation.
- Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income.
- Salaried borrowers who also file self-employed tax return schedules for businesses would also be required to provide a YTD P&L and balance sheet if they own 25% or more of the business even if the income is not being used to qualify. This requirement includes <u>all</u> business entities including those organized as pass through entities.
- VerbalVOE dated within 10 business days of closing documented in writing. The verbal VOE must cover 24 months of employment. If the borrower has changed jobs during the past two years the verbal VOE must show the start and end dates for each job. Any employment gaps exceeding 30 days must be addressed with a satisfactory letter of explanation from the borrower. Any employment gap over 30 days must be addressed.

EMPLOYMENT AND INCOME (continued):	**Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules:**
	▪ Salaried borrowers who also own 25% or more of a business or other entity are required to provide a year-to-date P&L and balance sheet for that business or entity even if the income from that business or entity is not being used to qualify. This requirement includes all business and entities including those organized as pass through entities.
	▪ Salaried borrowers who file a Schedule C (Sole Proprietorship) will be considered as self-employed and required to provide a year-to-date P&L and balance sheet. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.
	▪ Most recent two (2) years business tax returns are required for businesses where the borrower owns 25% or more and the business reports an income loss on the schedule K-1. Loss must be deducted from income.
	
	Salaried borrowers with Commission/Bonus:
	▪ For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2 year history of the receipt of the income is required.
	▪ This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a year-to-date paystub.
	▪ A year-to-date paystub, W-2's, and tax returns along will not satisfy the documentation requirements for bonus, commission or any other non-base salary compensation.
	
	Self -Employed Borrowers:
	▪ Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
	▪ Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
	▪ Most recent signed two (2) years tax returns, including all schedules, both individual and business returns.
	▪ W-2s from all employers for the past two (2) years. All W-2s must be computer generated.
	▪ Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.
	▪ P&L and tax returns must show stable or increasing income for the period relative to previous periods. Income cannot decline by 20% or more from the prior tax period.
	▪ Signed IRS form 4506-T. The 4506T transcripts will be obtained from the IRS prior to closing and used to validate the income documentation used to underwrite the loan. Any income documentation discrepancy between the IRS transcripts and the supporting income documentation (paystubs, W-2's, tax returns, etc.) as provided by the borrower must be satisfactorily reconciled.
	▪ Verification of the existence of the borrower's business must be provided within 30 calendar dates prior to closing. Methods of verifying business include:
	    o Verification from a third party such as a CPA, regulatory agency, or by an applicable licensing bureau. If a CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years.
	
	▪ P&L and Balance Sheet requirements
	    o Year to date P&L statement and balance sheet are required if note date is beyond 120 days from the end of the last fiscal year.

EMPLOYMENT AND INCOME (continued):	◦ Year to date P&L and balance sheets are required for all self-employed borrowers owning 25% or more of the company regardless if the business income is being used to qualify. This requirement includes <u>all</u> business entities including those organized as pass through entities. ◦ If the tax return for the previous tax year is not filed, a 12 months P&L and balance sheet for this period are required. ◦ If the most recent year tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided. ◦ The P&L and balance sheet are required even if the borrower does not have a business checking account. ◦ The P&L and tax returns must show stable or increasing income from <u>all</u> business entities and income sources for the period relative to previous periods. **Rental Income:** ▪ Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for all properties where rental income is being used to qualify. ▪ Properties with expired leases that have converted to month-to-month per the terms of the lease will require bank statements for the lesser of 12 months or the time period after the lease expired. ▪ A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITI(A) to arrive at the rental income/loss used for qualifying. ▪ Commercial properties owned on a Schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial. **Retirement or Pension Income** Retirement or Pension Income may be verified by the following: ▪ Copies of retirement award letters ▪ Copies of last two (2) months bank statements to document the regular deposit of payment. ▪ Distributions from a retirement account (401K, IRA, Keogh, SEP) must be documented with a distribution letter and copies of last two (2) months bank statements to document the regular deposit of payments. Annuity retirement benefits must have a minimum continuance of three years from the date of the application to be considered as qualifying income. **Social Security Income** Social Security Income may be verified by the following: ▪ Copy of the Social Security Administration award letter ▪ Copies of last two (2) months bank statements to document the regular deposit of payments. Benefits must have a minimum continuance of three years from the date of the application to be considered as qualifying income. **Alimony and Child Support Income** Alimony and Child Support are allowable sources of income with proof of a minimum of three year continuance. The following documentation is required:

EMPLOYMENT AND INCOME (continued):	▪ 12 months canceled checks to evidence consistent receipt ▪ Divorce decree or similar court order **Unacceptable Income:** ▪ Any source that cannot be verified ▪ Income that is temporary ▪ Rental income (Boarder Income) received from the borrower's primary residence ▪ Expense account payments ▪ Retained earnings ▪ Non-occupant income ▪ Employment contracts or offers of employment ▪ Trailing spouse income ▪ Restricted stock income (RSU)
DEBTS AND LIABILITIES: DEBTS AND LIABILITIES:	All debts, including co-signed obligations, for which the borrower is obligated must be considered in qualifying, even if the debt is being paid by another person or entity **Installment Debt:** ▪ Installment debt, including car lease payments, must be included in the qualifying ratio regardless of months remaining. ▪ Student loans must be included as a long-term debt even if payments are deferred. If the monthly payment amount of a student loan is not shown on the credit report a payment of one percent (1%) of the balance may be used for qualifying. ▪ Payments related to a 401(K) loan do not need to be included in total debt obligation ▪ Child support payments with 10 months or less remaining do not need to be included in total debt obligation. ▪ Installment debt may be paid off to qualify either before or at closing using cash-out proceeds. ▪ Gift funds may not be used to pay off debt to qualify. **Revolving Debt:** ▪ All revolving debt is included for qualifying regardless of number of payments remaining. ▪ The monthly payment amount of a revolving account shown on the credit report may be used for qualifying. ▪ If the monthly payment amount of a revolving account is not shown on the credit report a payment of five percent (5%) of the balance may be used for qualifying. ▪ The payment may only be excluded if the account is documented as paid in full and closed. ▪ Revolving debt may be paid off to qualify either before or at closing using cash-out proceeds. Documentation that the revolving debt has been paid off and the account is closed is required. ▪ Gift funds may not be used to pay off debt to qualify. **Home Equity Line of Credit (HELOC):** ▪ For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

	Conversion of Departing Residence to Investment Property:
	If the current primary residence is being converted to an investment property the following applies:
	▪ The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidence by either:
	  ○ A current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
	  ○ An Exterior Only appraisal (2055) (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
	  ○ An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement or credit report reference. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
	▪ A 25% expense/vacancy deduction must be applied to all rental income. Copies of the signed lease are required.
	▪ Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence.

ASSETS AND SOURCE OF FUNDS:
 	
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	For information regarding assets and source of funds that are not addressed in this document please refer to the most recent Fannie Mae or Freddie Mac Selling Guide.
	See page 2 for reserve requirements.
	▪ Verification of funds listed on the loan application must match the DU run and be documented. This includes any funds required to complete the transaction and satisfy reserve requirements.
	Source of Funds:
	▪ The borrower must have sufficient liquid assets to meet the requirements for down payment, pre-paid items, closing costs, and reserves.
	▪ Funds needed for closing must be verified with copies of the most recent two (2) months bank statements including all pages.
	▪ Large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income, must be sourced.
	▪ Acceptable sources of verified funds include:
	  ○ Bank deposits
	  ○ Stocks, stock options, bonds, and mutual funds. Stocks and bonds will be discounted at 70% of value for reserves.
	  ○ Sale of real property.
	  ○ Sale of personal property with supporting documentation.
	  ○ Disbursement from a Trust Fund.
	  ○ Disbursement from an IRA/401K.
	  ○ Life Insurance surrender value if used for cash to close must be liquidated. If used for reserves no liquidation is required.
	▪ Disaster relief grants. Borrowers may use lump sum grant for down payment. No minimum contribution is required. Grant may not be used for closing costs or reserve requirements. Document that payment received is an actual grant and not a loan. Subordinate lien against the property is ineligible.
	▪ Business funds can be used for down payment with a letter from an accountant verifying the following:

	○ The amount of business assets that can be used must correspond to the borrower's percentage of ownership in the business. ○ The funds are not a loan. ○ Withdrawal of the funds will not negatively impact the business. ○ Business funds may not be counted toward cash reserves. ▪ Gift funds are an acceptable source of funds as follows for primary residences with LTV $\leq$ 80% as follows: ○ Borrower must contribute at least 5% from their own funds. ○ Gift donor must be a relative, defined as the borrower's spouse, child, or other dependent, or by another individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or a fiancé or domestic partner. ○ Gift letter from donor that incudes name, address, telephone number and relationship to borrower ○ Evidence of funds transfer and receipt prior to closing. ▪ Gifts of equity are not allowed to be used as a source of funds.
HAZARD INSURANCE:	**Hazard Insurance Requirements:** ▪ Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost. ▪ Hazard insurance must have the same inception date as the date of disbursement. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.
MISCELLANEOUS:	▪ Multiple Financed Properties – Borrowers may not own more than four (4) residential 1-4 unit financed properties regardless of the occupancy of the subject property. ▪ Chain of Title: ○ All transactions require a minimum twelve (12) month chain of title ○ For purchase transactions, the seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of the sales contract. ▪ Current photo ID is required for all borrowers.

ALL LOANS WILL BE UNDERWRITTEN BY CRESCENT – WILL REQUIRE TWO (2) SIGNATURES.

PROGRAM SUBJECT TO CHANGE WITH INVESTOR CHANGES.