

Credit Guidelines

Revised 04/08/2024

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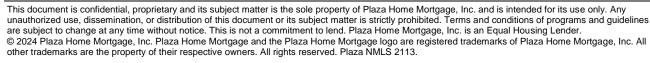
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Section 1 General Requirements

Plaza Home Mortgage, Inc. (Plaza) is committed to the policy of originating sound mortgage loans of investment quality. Requirements and/or overlays that vary from the underwriting guidelines will be described in the program guidelines. Regardless of credit underwriting requirements, additional information may be requested at the discretion of the underwriter. Plaza's credit guidelines are not meant to capture all loan scenarios. For topics not addressed in the credit or program guidelines, defer to the applicable agency guidelines.

1.1 Loan Application

The initial loan application must include sufficient information for the underwriter to reach an informed decision about whether to approve the mortgage loan. The final loan application signed by the borrower must include all income and debts disclosed or identified during the mortgage process.

1.2 Age of Documents

Information used to make the credit decision must be current. The table below shows the maximum age of documents allowable at closing calculated from the Note date.

Table 1-1			
Plaza's Documentation Age Requirements			
Item Existing Property New Construction			
Credit Documents ¹	120 days old	120 days old	
Appraisal ¹	120 days old	120 days old	

¹Requirements for Non-Conforming products may vary. Refer to the specific program guidelines for requirements. Plaza's program guidelines may have different age requirements for documentation. Refer to Plaza's program guidelines for requirements.

1.3 Automated Underwriting Systems (AUS)

All loans, unless specified in Plaza's specific program guidelines, are required to be scored through one of the following AUS:

- Desktop Underwriter (DU)
- Loan Product Advisor (LPA)
- FHA Total Scorecard
- Guaranteed Underwriting System (GUS)

Adherence to the AUS findings is acceptable in all cases except the following:

- Program guideline overlays require additional documentation which must be applied.
- Specific details of the transaction are not addressed in the AUS findings.

Specific Plaza program guidelines may require the use of one AUS system over another. For Non-Conforming loans, refer to Plaza's Non-Conforming program guidelines for specific underwriting methods.



1.3.1 **AUS Eligibility Requirements**

Data Integrity

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter. The underwriter must:

- Ensure data is entered accurately into AUS in order to receive the appropriate verification messages and approval (e.g., commission income, bonus income, gift information).
- Confirm the accuracy of the data submitted, making sure that you did not fail to submit any data that might have affected the AUS recommendation had it been known.
- Review the credit report to confirm that the data that AUS evaluated, with respect to the borrower's credit history, was accurate and complete.
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the AUS Underwriting Findings/Feedback Report.
- Apply due diligence when reviewing the documentation in the loan file.
- Determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by AUS. AND
- Take some action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that the AUS returned.

Excessive Number of Submissions

If the number of AUS submissions for any one case file number exceeds ten, then documentation explaining the reason(s) for excessive submissions must be included in the loan file.

Examples of acceptable documentation include:

- Underwriter to document on the underwriting worksheet (i.e., Fannie Mae 1008) the reasons why there are multiple runs.
- Letter of explanation from the originator.
- If the originator is responsible for the excessive submissions, an explanation must be included with the loan package when the loan is submitted to Plaza for underwriting or review.
- If a letter of explanation is not supplied at the time of underwriting, the underwriter must document on the underwriting worksheet and additional due-diligence applied to the review of the loan.

Examples of acceptable reasons for excessive AUS submissions may include, but are not limited to:

- Loan product changes
- Adding or deleting a borrower(s)
- Sales contract changes
- Appraisal updates

1.3.2 **Ensuring Conventional AUS Data and Delivery Information Accuracy**

The data submitted to the AUS must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value. This applies to conventional loans, and does not apply to Jumbo, Non-QM or Government Loans.



Verification documents must be reviewed and the verified values compared to the data submitted to the AUS. The terms of the closed loan must match the terms of the final loan casefile submission in the AUS or fall within the tolerances listed in the following table:

Data Attribute and Description	Trigger	Action Required
 Interest rate increase Discrepancies between the credit report payments and balances and those listed on the online loan application, including the presence of debt that is on the credit report but not on the application Additional debt(s) disclosed by the borrower or identified by the lender during the mortgage process Verified income is less than the income on the loan application submitted to the AUS 	DU loans — the result of these changes causes the DTI ratio recalculated by the lender to • now exceed 45%, or • increase by 3 percentage points or more (if the recalculated DTI ratio is 50% or less) * See resubmission examples below. LPA loans- the result of these changes causes the DTI ratio recalculated by the lender to • exceed 45%, no matter what the increase in percentage points may be	Loan casefile must be resubmitted to AUS
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases, not as the result of a permanent interest rate buydown	No resubmission required
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases as the result of a permanent interest rate buydown	Loan casefile must be resubmitted to AUS
Verified income used to qualify the borrower for loans subject to income limits; for example, as with HomeReady and Home Possible loans.	Income is greater than the loan application indicates	Loan casefile must be resubmitted to AUS
Assets — Funds Required to Close	The actual amount of assets required to close the transaction exceeds the amount of "Funds Required to Close" per the AUS Underwriting Findings report	If the lender has documented sufficient liquid assets to cover the actual amount of assets required to close the transaction, no resubmission required Otherwise, loan casefile must be resubmitted to AUS
Assets — Reserves Required to be Verified	Due to changes in the actual amount of assets required to close the transaction, the verified amount of reserves is less than the "Reserves	If the lender has documented reserves that equal at least 90% of the Reserves Required to be Verified per the AUS



Data Attribute and Description	Trigger	Action Required
	Required to be Verified" per the AUS Underwriting Findings report	Underwriting Findings report, no resubmission required. Otherwise, loan casefile must be resubmitted to AUS
Loan amount tolerances for refinance transactions	(See below)	

*Resubmission examples based on DTI triggers

Original DTI	Recalculated DTI	Resubmission Required
35	40	Yes
44	46	Yes
46	48	No
46	50	Yes

DU Tolerances for Refinance Transaction Loan Amount Changes

For refinance transactions, Fannie Mae allows the following tolerances to the loan amount:

- The loan amount may increase \$500 or up to 1% of the loan amount, whichever is less.
- The loan amount may decrease 5% of the loan amount.

The loan amount tolerances are permitted provided the new LTV/CLTV does not result in

- changes to the amount of required mortgage insurance coverage,
- different loan-level price adjustments, or
- · changes to loan eligibility.

For example, if a loan casefile is submitted with a loan amount of \$100,000 and the appraised value is \$120,000 (which equals 83.3% LTV), the actual loan amount can go up to \$100,500 (which equals 83.75% LTV) without requiring resubmission.

On the other hand, if the original loan amount was \$108,000 (90% LTV), an increase without resubmission is not permitted because it would result in an LTV of 91%. The higher LTV requires different mortgage insurance coverage, and may result in the loan not being eligible for delivery.

The loan amount tolerance does not apply to Fannie Mae's requirements regarding the amount of cash back to the borrower on a limited cash-out refinance transaction.

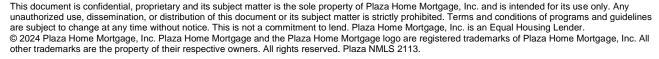
LPA Tolerances for Refinance Transaction Loan Amount Changes

For refinance transactions, Freddie Mac allows the following tolerances to the loan amount:

- The loan amount may increase \$500 or up to 1% of the loan amount, whichever is less.
- The loan amount may decrease 5% of the loan amount.

The loan amount tolerances are permitted provided the new LTV/CLTV does not result in

changes to the amount of required mortgage insurance coverage,





- · different loan-level price adjustments, or
- changes to loan eligibility.

Loans with appraisal waivers are not eligible for loan amount tolerances and must be resubmitted if the loan amount changes.

*** Note- Refer to the Specific Selling Guides for both Desktop Underwriting and Loan Product Advisor, for resubmission requirements for Construction Conversion and Renovation Mortgages.

1.4 Manual Underwriting (6/16/2023)

The underwriter must complete a complete risk assessment and ensure full documentation is obtained to support decision regardless of loan program when a manual underwrite is performed in place of an AUS.

Manually underwritten loans must meet the following criteria:

- Maximum ratio allowed with a manual underwrite is the lesser of 45% or program maximum allowed for DTI.
- The loan must meet all other required agency, Plaza and MI company (when applicable) published program and underwriting guidelines.
- Primary Residences only. Second Home and Investment properties are not allowed.

Loans that return a Refer for layered risk or DTI are not eligible for a manual underwriting option.

Conventional Loans

Manual underwriting is not permitted except in the cases of erroneous credit.

• Erroneous Credit reported on Credit Report and DU/LPA Findings - A manual underwrite may be considered for loans with documented evidence of erroneous credit only, and only if run through the appropriate AUS before down grade to manual underwrite with DU or LPA Findings. The loan must meet all other required agency, Plaza, and MI Company (when applicable) published program and underwriting guidelines. All requirements above also apply.

FHA

The underwriter must complete a complete risk assessment and ensure full documentation is obtained if a determination is made that the mortgage must be downgraded to manual underwriting. The underwriter must comply with all requirements for manual underwriting when underwriting a downgraded Mortgage. Refer to HUD Handbook 4000.1.

VA

In the event that credit terms or loan information was not considered in the AUS decision, an Approve/Eligible or Accept decision must be downgraded to Refer and be manually underwritten. Circumstances requiring downgrade, if not considered in the AUS decision, include but are not limited to:

- Delinquent federal debt, CAIVRS and suspended and debarred individuals
- · Disputed accounts, significant inaccuracy or undisclosed debt
- Previous mortgage foreclosure or bankruptcy within 2 years of application
- Collection accounts, tax liens, charge-offs, judgments
- Bank statements that indicate multiple non-sufficient funds (NSF) charges. Example: More than one or two
 isolated incidents over a 60-day period. An explanation for such NSFs will be required and additional assets
 statements may be required to decision the loan.
- Failure to meet the specific conditions of an AUS approval.



USDA

Loans that receive a finding of "Refer" or "Refer with Caution" may be manually underwritten subject to the requirements in USDA **HB-1-3555**. Regardless of a GUS Eligible Finding, the underwriter is responsible for satisfactorily establishing the applicant's willingness and ability to repay and manage obligations. The underwriter cannot rely solely on GUS approval for making a lending decision.

When manually underwriting a loan, the file must contain supporting documentation with a signed LOE from the borrower explaining the nature of any adverse credit. The underwriter's 1008 must include detailed justification for approving the loan listing any mitigating circumstances and compensating factors.

All loans, with the exception of Streamlined-assist Refinances, must be decisioned through GUS. Streamlined-assist loans must be manually underwritten.

Section 2 Borrower Eligibility

Plaza will lend on mortgages made to borrowers who are natural persons who have reached the age at which the mortgage Note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

Plaza does not make loans on properties held in Life Estates, Non-Revocable Trusts, Guardianships, LLCs, Corporations or Partnerships, Community Land Trusts and Illinois land trusts.

Exceptions to the requirement that borrowers be natural persons are:

Inter Vivos revocable trusts

Refer to **Plaza's Trust Policy** for more information on Inter Vivos Trust, Revocable Trust, or Living Trust. Refer to the **Identity of Interest** section for more information on borrower eligibility.

2.1 Borrower

A borrower is any applicant (e.g., individually or jointly) whose credit is used for qualifying purposes to determine ability to meet Plaza's underwriting and eligibility standards.

2.2 Co-Borrower

"Co-borrower" is a term used to describe any borrower other than the first borrower whose name appears on the Note.



2.3 Non-Occupant Co-Borrower

Non-occupant co-borrowers are credit applicants who:

- Do not occupy the subject property as a principal residence.
- May or may not have an ownership interest in the subject property as indicated on the title.
- Sign the mortgage or deed of trust note.
- Have joint liability for the Note with the borrower(s). AND
- Do not have an interest in the property sales transaction, such as the property seller and the builder.

While Freddie Mac has the same definition for non-occupant co-borrower, they apply varying requirements for down payment and qualification to loans with this characteristic. Cash-out loans with FHLMC are not eligible when a non-occupant borrower is being used to qualify.

2.4 Non-Borrowing Spouse (09/22/2023)

When a married borrower applies in their name alone, the spouse is referred to as the non-borrower spouse. A non-borrower spouse may have rights as a co-owner of the mortgage premises or due to state community property or marital rights. *Refer to the program guidelines for non-borrowing spouse requirements.

2.5 Co-Signers and Guarantors

Guarantors and co-signers are credit applicants who:

- Do not have ownership interest in the subject property as indicated on the title.
- Sign the mortgage or deed of trust note.
- Have joint liability for the note with the borrower. AND
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

Down Payment and Qualifying Ratio Requirements for Manually Underwritten Loans (FNMA and FHLMC)

FNMA: When the guarantor's, co-signer's, or non-occupant co-borrower's income is used for qualifying purposes, the occupying borrower(s) must make the first 5 % of the down payment from their own funds unless:

- The LTV or CLTV ratio is less than or equal to 80 %. OR
- The occupying borrower is purchasing a 1-unit principal residence and meets the requirements to use gifts, donated grant funds or funds received from an employer to pay for some or all of the borrower's minimum contribution.

Down payment requirements may vary on government programs. Refer to the specific program guidelines for requirements.

FHLMC:

- The LTV may not exceed 90%
- The Occupant Debt to Income Ratios may not exceed 35%/43%

2.6 Trusts

Refer to Plaza's Living Trust Policy for more information on Inter Vivos Trust, Revocable Trust or Living Trust.



2.7 Borrower's Identity

Plaza requires all borrowers to have a valid Social Security number (in addition to meeting existing legal residency and documentation requirements).

The AUS feedback may identify data integrity issues pertaining to the borrower's Social Security number. Underwriters must take steps to resolve any issues, including numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If an underwriter cannot resolve any Social Security number inconsistencies:

- Files must contain documentation to validate the Social Security number with the Social Security
 Administration (SSA). Direct validation with SSA by a third party is acceptable. SSA Form 89 must be used for
 this purpose.
- DU only Upon positive validation of the Social Security number with the SSA, the underwriter must deliver the loan with SFC 162. SFC 162 should only be used if there is a discrepancy identified with the Social Security number (for example, identified via Loan Delivery edits), and the Social Security number was validated through the SSA.
- If the Social Security number cannot be validated with the SSA, the loan is not eligible.

If the borrower's Social Security number format is invalid and the borrower cannot provide a valid Social Security number, the loan is not eligible.

2.8 Permanent Resident Alien (09/22/2023)

Permanent resident aliens are eligible for financing under the same terms and conditions as U.S. citizens. Copies of passports, visas, Resident Alien/Permanent Resident cards or other residency status or employment document must be provided and included in the loan file. Refer to Plaza's **Non-US Citizen Documentation Matrices**

2.9 Non-Permanent Resident Alien (09/22/2023)

Plaza will lend on mortgages to non-citizens who are lawful permanent or nonpermanent residents of the U.S.

If the borrowers indicate they are not U.S. citizens, underwriters do not need to focus on why they are in the country or where they are in the immigration process, but instead focus on the documentation presented as evidence of lawful presence in the U.S., income generation, and financial responsibility. Underwriters must refer to Plaza's Non-US Citizen Documentation Matrices.

A number of government documents can – alone or in combination, show that the holder is lawfully present in the U.S. Documents that may show the holder is lawfully present include:

- Social Security card
- Permanent Resident ("Green") card
- Employment Authorization Document (EAD) card
- Visa with entry stamp

Refer to the U.S. Citizenship & Immigration Services for more information: www.uscis.gov

FHA

A borrower who is a non-permanent resident alien may be eligible for FHA-insured financing provided:

• The property will be the Borrower's Principal Residence;



- The borrower has a valid SSN, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- The borrower is eligible to work in the U.S., as evidence by the Employment Authorization Document (EAD) issued by the USCIS.

Deferred Action for Childhood Arrivals (DACA) program recipients:

- Must be borrower's principal residence;
- Borrower must have a valid Social Security Number (SSN), except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
- Borrower must be eligible to work in the U.S. as evidenced by the Employment Authorization Document issued by USCIS, and
- The borrower satisfies the same requirements, terms, and conditions as those for U.S. citizens.

The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the underwriter may assume the continuation will be granted. If there are no prior renewals, the underwriter must determine the likelihood of renewal based on information from the USCIS.

A borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.

2.10 Ineligible Borrowers

The following borrowers are ineligible:

- Corporation
- Partnership
- Non-revocable Inter Vivos Trusts
- A non-U.S. citizen who has no lawful residency status in the U.S. such as foreign nations
- Borrowers with diplomatic immunity
 - Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity.
 - Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at http://www.state.gov/s/cpr/rls//

Section 3 Mortgage Eligibility

3.1 Loan Limits

The loan limits apply to all loans and are based on the original loan amount of the loan. The limits are subject to change annually and vary, depending on the number of units in the property and the property's location.

Underwriters are responsible for ensuring that the original loan amount of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located.

First mortgage loan limits are defined in terms of general loan limits and high-cost area loan limits. Refer to Plaza's Program guidelines for eligible loan limits.



3.2 Occupancy

Owner-occupied primary residences, second homes and investment properties are eligible. See Plaza Program guidelines for specific program limitations.

3.2.1 Primary Residence

A primary residence is a property that the borrower occupies as his or her primary residence. The residence is occupied by the primary wage-earner; it is in a location relatively convenient to the principal place of employment; and it is the address of record for items such as voter registration, federal income tax reporting, licensing, and similar functions.

There are exceptions for the principal residence definition even though the borrower will not be occupying the property.

Table 3-1			
Borrower Types	Requirements for Owner-Occupancy		
Multiple borrowers	Only one borrower needs to occupy and take title to the property, except as otherwise required for mortgages that have guarantors or cosigners.		
Parents wanting to provide housing for their physically handicapped or developmentally disabled adult child	Fannie Mae only: If the child is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the parent is considered the owner/occupant.		
	Not all programs allow. See program guidelines for specific guidance.		
Children wanting to provide housing for elderly parents	Fannie Mae only: If the parent is unable to work or does not have sufficient income to qualify for a mortgage on his or her own, the child is considered the owner/occupant.		
	Not all programs allow. See program guidelines for specific guidance.		

3.2.2 Second Home

A second home is a 1-unit property, including condominiums or PUDs that the borrower will occupy for a portion of the year.

- Must be located a reasonable distance away from the borrower's principal residence.
- Must be occupied by the borrower for some portion of the year. Is restricted to 1-unit dwellings.
- Must be suitable for year-round occupancy.
- The borrower must have exclusive control over the property.
- Must not be rental property or a timeshare arrangement.
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property.

3.2.3 Investment Property

An investment property is owned but not occupied by the borrower.

3.3 Loan Purpose



3.3.1 Purchase

A purchase transaction is one in which the proceeds are used to finance the acquisition of a property. Certain mortgage loans and programs may have different eligibility requirements for purchase mortgage transactions. If applicable, the differences will be stated in the specific program guidelines.

General Requirements

Proceeds from the transaction must be used to:

- Finance the acquisition of the subject property.
- Finance the acquisition and rehabilitation of the subject property.
- Convert an interim construction loan or term note into permanent financing. OR
- Pay off the outstanding balance on the installment land contract or contract for deed.

Proceeds from the transaction may not be used to give the borrower cash back other than the following:

An amount representing reimbursement for the borrower's overpayment of fees and charges, including
refunds that may be required in accordance with certain federal laws or regulations. The Settlement
Statement must clearly indicate the refund with a notation for the reason, and the loan file must include
documentation to support the amount and reason for the refund; and a legitimate pro-rated real estate tax
credit in locales where real estate taxes are paid in arrears.

Note: If the borrower receives cash back for a permissible purpose as listed above, the lender must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment in accordance with Plaza guidelines.

Purchase of Pre-foreclosure or Short Sale Properties — Allowable Fees, Assessments, and Payments

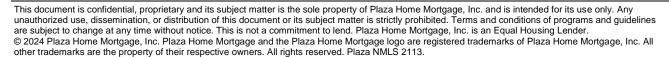
Borrowers may pay additional fees, assessments or payments in connection with acquiring a property that is a preforeclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees, assessments or payments include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees)
- Note: This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.
- Payment to a subordinate lienholder. AND
- Payment of delinquent taxes or delinquent HOA assessments.

The following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments or payments and the additional necessary funds to complete the transaction must be documented.
- The servicer that is agreeing to the pre-foreclosure or short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the
 transaction including the additional fees, assessments, or payments. This can be accomplished by using the
 "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" forms published
 by the U.S. Treasury Supplemental Directive 09–09 or any alternative form or addendum.
- The Settlement Statement must include all fees, assessments and payments included in the transaction.

See Non-Arm's Length/At Interest.





Unexpired Redemption Period

Foreclosed properties that are located in a state where a redemption period is allowed (including Fannie Mae and Freddie Mac owned or HUD REO) are not eligible until all of the following are met:

- The redemption period has expired.
- The foreclosure sale has been confirmed. AND
- Clear and marketable title is obtained.

Owner of Record and Chain of Title

- The seller must be the owner of record.
- Provide 24-month chain of title. Acceptable sources for the chain of title include copies of recorded deeds, tax statements or a chain of title on the title commitment.

3.3.2 Refinance/No Cash-Out Refinance (Freddie Mac- LPA Only) (12/06/2023)

Refer to Plaza's **Texas Home Equity Section 50(a)(6)** guidelines for specific refinance requirements for Texas properties.

When an existing Mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:

- At least one Borrower on the refinance Mortgage was a Borrower on the Mortgage being refinanced; or
- At least one Borrower on the refinance Mortgage held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12-month period and the Mortgage file contains documentation evidencing that the Borrower, either:
 - Has been making timely Mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or
- At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises (for example, in the case of divorce, separation or dissolution of a domestic partnership)

A Living Trust may be made irrevocable by a Settlor's death. To be an eligible, Borrower at the time of the refinance transaction, the Borrower must continue to be a Living Trust.

No Cash-Out Refinance

A "no cash-out" refinance Mortgage is a Mortgage for which the proceeds may be used only to:

- Pay off the first Mortgage, including a balance deferred under a loss mitigation plan, regardless of its age; for Construction Conversion Mortgages and Renovation Mortgages, the amount of the Interim Construction Financing secured by the Mortgaged Premises is considered an amount used to pay off the first Mortgage
- Pay off any junior liens secured by the Mortgaged Premises, that were used in their entirety to acquire the subject property
- Pay related Closing Costs, Financing Costs and Prepaids/Escrows
- Pay any required share of appreciation due to a subsidy provider per the resale restricted covenants
- Disburse cash out to the Borrower (or any other payee) up to the greater of 1% of the new refinance Mortgage or \$2,000

Pay off the outstanding balance of a land contract or contract for deed if the requirements in **Lease Option and Land Contract for Deed**_are met



In the event there are remaining proceeds from the "no cash-out" refinance Mortgage after the proceeds are applied as described above:

- The Mortgage amount must be reduced, or
- The excess amount must be applied as a principal curtailment to the new refinance Mortgage at closing and must be clearly reflected on the Settlement/Closing Disclosure Statement.

Under no circumstances may cash disbursed to the Borrower (or any other payee) exceed the maximum permitted for "no cash-out" refinance Mortgages.

3.3.3 Limited Cash-Out Refinance (Rate and Term) - (Fannie Mae- DU) (09/22/2023)

Refer to Plaza's **Texas Home Equity Section 50(a)(6)** guidelines for specific rate-term refinance requirements for Texas properties.

See also Refinance Transactions Based on Subordinate Lien Payoff.

When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out:

- No outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out out refinance even though there is not an outstanding lien on the subject property).
- The proceeds are used to pay off a subordinate lien that was not used to purchase the property.
- The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount. **AND**
- A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage or any refinance of that loan within 6 months.

When the following conditions exist, the transaction is not eligible:

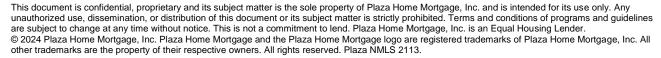
- The subject property is currently listed for sale. Property must have been taken off the market on or before the disbursement date of the new mortgage loan.
- The previous mortgage was a "restructured mortgage" as defined in **Derogatory Credit Matrix** and does not comply with the elapsed waiting period requirement.

The following are acceptable in conjunction with a limited cash-out refinance transaction:

- Modifying the interest rate and/or term for existing mortgages.
- Paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties).
- Financing the payment of closing costs, points and prepaid items.
- Receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000.
- Buying out a co-owner pursuant to an agreement.
- Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. The underwriter must document that the entire amount of the subordinate financing was used to acquire the property.

Limited cash-out refinance transactions must meet the following requirement as well:

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents that:
 - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or
 - the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.





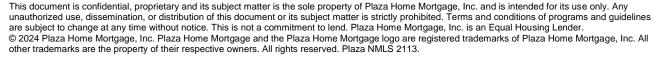
Cash Back to the Borrower

Table 3-2					
	Limited Cash-Out Eligibility Matrix				
Purpose of the Refinance	Requirements	Documentation Requirements			
Payoff of a first mortgage regardless of age	DU – No seasoning requirement.	DU - No additional documentation required.			
Pay off an Existing Subordinate lien regardless of age	Allowed only if the proceeds were used to acquire the subject property. If the junior lien is a HELOC, the current balance may not exceed the initial draw amount; otherwise, it is considered a cash-out refinance.	A copy of the Settlement Statement for the purchase of the property, the title policy from purchase transaction that identifies the subordinate financing, or other documentation from the purchase transaction that indicates the subordinate lien was used to purchase the property.			
Refinance to buy out an owner's interest. A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance.	Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Plaza's underwriting guidelines.	Evidence the secured property was jointly owned for at least 12 months preceding the date of the mortgage application. All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the date of the mortgage application.			
Paying off the unpaid balance of a PACE loan	May be secured or unsecured	Evidence the PACE loan was used exclusively for energy-related improvements			

3.3.4 Student Loan Cash-Out Refinance – Fannie Mae Only

The student loan cash-out refinance allows for the payoff of the student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:

- The loan is underwritten in DU. DU cannot specifically identify these transactions, but will issue a message when it appears that only subject property liens and student loans are marked paid by closing.
- Standard cash-out refinance LTV, CLTV, and HCLTV ratios
- At least one student loan must be paid off with proceeds from the subject transaction with the following criteria:
 - Proceeds must be paid directly to the student loan servicer at closing;
 - At least one borrower must be obligated on the student loan(s) being paid off, and
 - The student loan must be paid in full—partial payments are not permitted.
 - Only subordinate liens, used exclusively to purchase the property, or a qualified PACE loan may be paid off and included in the new mortgage.
 - Real estate taxes being paid off may not be more than 60 days delinquent and an escrow must be established, subject to applicable law or regulation.
 - The borrower may not receive cash back in an amount more than the lesser of 2% of the new refinance loan amount or \$2,000.





Loans qualified as student loan cash-out refinances must be delivered with Special Feature Code (SFC) 003 and SFC 841.

3.3.5 Cash-Out Refinance (09/22/2023)

A cash-out refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner to obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing as long as they do not exceed the program requirements.

Cash-out refinance transactions must meet the following requirements:

- Any refinance transaction not meeting the requirements for a rate-term refinance is to be considered a cash-out refinance.
- Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.
- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves are required.
- The property must have been purchased by the borrower at least 6 months prior to the loan disbursement date (or less if mandated by the specific program, occupancy or property type) unless one of the following conditions exist:
 - o Transactions that meet all applicable delayed financing guidelines. See Delayed Financing Exception, or
 - The borrower inherited or was legally awarded (by divorce, separation, or dissolution of a domestic partnership) a property.
- For the maximum allowable LTV/CLTV/HCLTV ratios and credit score requirements for cash-out refinances, see the individual program guidelines.

Note: For VA Seasoning requirements and updating BREEZE refer to the **BREEZE Underwriter User Guide** VA Details chapter.

Ineligible Transactions

The following transaction types are not eligible as cash-out refinances:

- The mortgage is subject to a temporary interest rate buydown.
- The subject property was purchased by the borrower within the 6 months except if delayed financing guidelines are met. See Delayed Financing Exception below. See **Delayed Financing**.
- The subject property is currently listed for sale.
- The existing mortgage is a "restructured mortgage" that does not meet the repayment seasoning period.
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible to Plaza without an escrow account.

(Freddie Mac- LPA Only)- (12/06/2023)

Cash-out refinance transactions require **12 months** seasoning measured from the Note date of the loan being refinanced to the Note date of the cash-out transaction, as documented in the mortgage file with either evidence located on the credit report or on the title commitment.

Property ownership held in a limited liability company (LLC) or limited partnership (LP) is eligible to meet the 12-month seasoning requirement if the borrower was 100% owner or a majority owner of the LLC since the date the property was acquired by the LLC or LP. Title must be transferred into the borrower's name **prior to the Note date.**

Note- Loan Product Advisor will return a new feedback message to support this update, stating that the seasoning MUST be met, but no further language beyond that will be provided. <u>Guide impact</u>: See FHMLC guide Section 4301.5.



The 12-month seasoning is waived if:

- One of the borrowers inherited or was legally awarded the property (e.g. in the case of divorce, separation, dissolution of a domestic partnership), or
- The cash-out refinance is a special purpose refinance (i.e. the cash-out proceeds will be used to buy out the
 equity of a co-owner), or
- The first lien being refinanced is a HELOC

REMINDER- FREE & CLEAR PROPERTIES: If the property is owned F&C of any and all liens, the cash-out seasoning of 12 months is <u>NOT</u> required. (Seasoning is based on note date to note date, which we do not have in these cases).

• Non-occupant co-borrowers are not eligible on FHLMC cash-out transactions.

(Fannie Mae- DU Only)- (2/3/2023)

Cash-out refinance transactions require **12 months** seasoning measured from the Note date of the loan being refinanced to the Note date of the cash-out transaction, as documented in the mortgage file with either evidence located on the credit report or on the title commitment.

Property ownership held in an LLC is eligible to meet the 12-month seasoning requirement if the borrower was 100% owner or a majority-owner of the LLC. The property must be taken out of the LLC **prior to disbursement of the new loan funds.**

Note- The Desktop Underwriter® (DU®) message issued on cash-out refinance loan casefiles will be updated in a future release to reflect the updated requirement. <u>Guide impact</u>: See FNMA Selling Guide B2-1.3.03- Cash-Out Refinance Transactions.

The 12-month seasoning is waived if:

- One of the borrowers inherited or was legally awarded the property (e.g. in the case of divorce, separation, dissolution of a domestic partnership), or
- The cash-out refinance is a special purpose refinance (i.e. the cash-out proceeds will be used to buy out the equity of a co-owner), or
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the requirement if the borrower is the primary beneficiary of the trust.

3.3.6 Payoff of Installment Land Contracts

Cash-out refinance transactions involving installment land contracts are not eligible.

3.3.7 Defining Refinance Transactions Based on Subordinate Lien Payoff

The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

Table 3-3			
Refinance Transactions transaction includes payoff of the first lien and	Then underwrite the transaction as a	Comments	
The payoff of a purchase money second with no cash out.	Limited cash-out refinance	NA	
The payoff of a non-purchase money second, regardless of whether additional cash out is taken.	Cash-out refinance	NA	
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash	Limited cash-out refinance	The subordinate lien must be resubordinated to the new first mortgage loan.	



out except to the extent permitted for a limited cash-out refinance transaction.		
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is taking cash out.	Cash-out refinance	The subordinate lien must be resubordinated to the new first mortgage loan.

3.3.8 Investor and Second Home Transactions

Investor and second home borrowers with multiple financed properties must meet multiple financed properties requirements addressed in the Max Number of Financed Properties. Not all programs allow 5-10 financed properties when a subject property is a second home or investment property transactions. Refer to the program guidelines for eligibility.

Underwriting Requirements

- Minimum Credit Score 720
- Bankruptcy or Foreclosure
- The borrower cannot have any history of bankruptcy or foreclosure within the past 7 years.
- Mortgage Delinquencies
- The borrower cannot have any delinquencies (30-days or greater) within the past 12 months on any mortgage loans.
- Rental Income
- Rental income on the subject investment property must be fully documented in accordance with the Rental Income section.
- Rental income from other properties owned by the borrower must be supported by the most recent signed federal
 income tax return. If rental income has not yet been reported on tax returns because the properties were acquired
 subsequent to the last tax filing, leases may be used to document rental income.
- Minimum Reserve Requirements
- The borrower must have reserves for the subject property and for other properties in accordance with the Required Minimum Reserve

3.4 Other Real Estate Owned – Retaining Current Residence

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is:

- An existing investment property, the borrower must be qualified in accordance with Rental Income, Minimum Reserve Requirements, and, if applicable, Maximum Number of Financed Properties An existing second home, the PITIA of the existing second home must also be counted as part of the borrower's recurring monthly debt obligations.
- The borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the new transaction, the borrower must qualify subject to Current Residence Pending Sale.

3.5 Current Principal Residence Pending Sale

Fannie Mae

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.



Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following additional documentation is provided:

- The executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared.

Freddie Mac

If the Borrower's current Primary Residence is pending sale and the sale will not close before the Mortgage Note date, the amount of the payment on the property pending sale may be excluded in the monthly debt payment-to-income ratio when the Mortgage file contains the following:

- The Borrower's executed sales contract for the property pending sale. If the executed sales contract includes a
 financing contingency, the file must contain evidence that the financing contingency has been cleared or a
 lender's commitment to the buyer of the property pending sale OR
- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding Mortgage(s).

3.6 Subordinate Financing

If the program allows the first lien mortgage to be subject to subordinate financing, the subordinate lien must be recorded and clearly subordinate to the first mortgage lien. The existence and repayment terms must be disclosed and documented in the loan file.

There are two types of subordinate financing:

- Home Equity Lines of Credit (HELOC) is an open-end credit line secured by a 1-4 family dwelling that allows for multiple advances according to the provisions of the note and financing agreement, and is typically in a subordinate lien position.
- A Closed-End mortgage provides for a single advance of funds at the time of loan closing and does not allow for future draws.

For transactions that include subordinate financing, the following requirements apply for both HELOC and Closed-End Loans:

- The subordinate financing must be recorded and clearly subordinate to the first mortgage.
- The maximum LTV/TLTV/CLTV may not exceed the guideline limits for the product and occupancy type shown in the LTV Ratios and Occupancy Requirements Sections.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's DTI ratio(s).

Plaza allows first mortgage liens that are subject to institutional, seller and community second subordinate financing subject to specific loan program eligibility and restrictions.

Subordinate liens must be recorded and clearly subordinate to Plaza's first mortgage lien. The loan application must disclose the existence of subordinate financing and the subordinate financing repayment terms to Plaza, the appraiser and the mortgage insurer.

If a first mortgage is subject to subordinate financing, the underwriter must calculate the LTV, CLTV and HCLTV ratios taking the amount of the subordinate lien into account.

Acceptable Subordinate Financing Types

Variable payment mortgages that comply with the Variable Payment Terms.



- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgages with deferred payments in connection with employer subordinate financing (see below).
- Mortgage terms that require interest at a market rate.
- Seller Carry Back Second Mortgage

Unacceptable Subordinate Financing Types

- Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments).
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than 5 years after the Note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments).
- Subordinate financing that restricts prepayment (that is, subordinate liens with prepayment penalties).

Note: When lenders offer HELOCs or Closed-End Second Mortgages that pay for some or all of the borrower's closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early, Plaza will not define these recouped fees as a prepayment penalty for the purpose of subordinate financing eligibility unless state law deems these fees a prepayment penalty.

3.6.1 Subordinate Financing Terms

For transactions that include subordinate financing, the following requirements apply for both HELOC and Closed-End Loans:

- The subordinate financing must be recorded and clearly subordinate to the first mortgage.
- The maximum LTV/TLTV/CLTV may not exceed the guideline limits for the product and occupancy type shown in the LTV Ratios and Occupancy Requirements Sections.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's DTI ratio(s).

Employer-Sponsored Subordinate Financing

If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest only. Employer subordinate financing may be structured in any of the following ways:

- Fully amortizing level monthly payments
- Deferred payments for some period before changing to fully amortizing level payments
- Deferred payments over the entire term
- Forgiveness of the debt over time

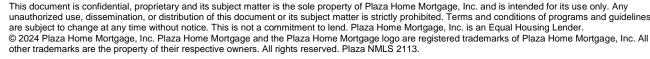
The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily) before the maturity date of the subordinate financing.

Seller-Sponsored Subordinate Financing

Plaza does allow seller carry back subordinate financing.

3.6.2 Variable Payment Terms for Subordinate Financing

Plaza permits variable payments for subordinate financing if the following provisions are met:





With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly
payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For
HELOCs, the monthly payment does not have to remain constant.)

The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

3.6.3 Subordinate Financing Documentation Requirements

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

Existing Subordinate Financing

- A copy of the credit report or
- A copy of the loan statement or
- A direct verification from the lender or
- A copy of the mortgage note and the security instrument.

New Subordinate Financing

- A copy of the mortgage note or
- A direct verification from the lender or
- A copy of the commitment letter from the lender.

Note: If the alternative documentation does not include sufficient information to evidence compliance with requirements listed above, a copy of the subordinate lien's security instrument should be provided.

3.6.4 Re-subordination Requirements for Refinance Transactions

If subordinate financing is left in place in connection with a first mortgage refinance transaction, Plaza requires execution and recording of a re-subordination agreement.

If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage that is being refinanced, Plaza does not require re-subordination. The subordinate lien must satisfy any specified criteria of the applicable statutes.

3.7 Lease Option and Land Contract for Deed

Lease Options

When a borrower is purchasing a home under a lease option agreement, they may receive a rent credit from the seller for part of the down payment and closing costs if the amount of monthly rent paid by the borrower exceeds the current market rent at the time the contract was signed.

- Rent credit amount is limited to the amount of borrower-paid rents, which exceeds the market rent.
- Appraiser to confirm the market rent as of the date the contract was signed.
- File must contain clear evidence all rent was paid copy of cancelled checks.
- Term of lease must be at least 12 months.
- Rent credit may be used to satisfy the minimum contribution requirement.
- Loans will be classified and treated as a purchase transaction.
- Rent Credit must appear on the Settlement Statement.



Land Contracts

Transactions for the purpose of paying the outstanding balance on a recorded land contract are acceptable, subject to the following:

- If the land contract/contract for deed was executed 1 or more years ago, the transaction will be treated as a refinance transaction.
- The LTV/CLTV ratio is based on the current appraised value.
- If the land contract/contract for deed was executed less than 1 year ago, the transaction will be treated as a purchase transaction.
- The LTV/CLTV ratio is based on the lesser of the current appraised value or the total acquisition cost.
- The total acquisition cost is defined as the purchase price indicated in the original land contract plus any costs the borrower incurred for rehabilitation, renovation or energy conservation improvements. These expenditures must be fully documented by the borrower.
- 12 months' worth of cancelled checks may be required to verify the borrower's payment history. Refer to specific program guidelines.
- No cash to the borrower is allowed.
- A copy of the executed land contract is required. When underwriting the loan that will pay off an unrecorded land contract, use the date the contract was executed by the property seller and buyer as the inception date (for the purpose of determining seasoning).
- Standard verification showing the borrower has been making the payments. Include cancelled checks from a private party lender, or evidence of timely repayments on the credit report from an institutional lender. Verification of Mortgage is not required if this evidence is shown on the credit report.

3.8 Delayed Financing

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all the following requirements are met:

- The borrower(s) may have initially purchased the property as one of the following:
 - The original purchase transaction was an arms-length transaction
 - A natural person;
 - An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
 - o An eligible land trust when the borrower is the beneficiary of the land trust; or
 - An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
 - The Settlement/Closing Disclosure Statement from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property.
 - The preliminary title report for the refinance transaction must reflect the Borrower as the owner of the subject property and must reflect that there are no liens on the property.
 - The source of funds used to purchase the subject property must be fully documented.
 - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
 - The amount of the cash-out refinance Mortgage must not exceed the sum of the original purchase price and related Closing Costs as documented by the Settlement/Closing Disclosure Statement for the purchase transaction, less any gift funds used to purchase the subject property.



A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement was not used for the purchase transaction.

There must have been no affiliation or relationship between the buyer and seller of the purchase transaction.

3.9 Max Number of Financed Properties (11/30/2021)

The maximum number of financed properties, including the subject property and the borrower's primary residence, regardless of the lending source is limited as outlined below. These guidelines apply regardless of AUS results.

	Table 3-4		
Prim	Primary Residence Second Homes / Investment Property		
DU	No Restrictions	 10 (including primary) Standard underwriting requirements apply Greater than 6 (including primary) Minimum representative credit score of 720 The borrower may not be affiliated with the builder, developer, or seller of the subject property. The financed property limit applies to the borrower's ownership of 1-4 unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed, not the number of mortgages on the property. 	
LPA	No Restrictions	 10 (including primary) Greater than 6 (including primary) Minimum representative credit score of 720 4 (including primary) on Non-Conforming Loans Standard underwriting requirements apply 	

The following table describes how to apply the limitations based on the type of property ownership:

Type of Property Ownership	Property Subject to Limitations?
Joint ownership of residential real estate. (This is considered to be the same as total ownership of an individual property.) Note: Other properties owned or financed jointly by the borrower and co-borrower are only counted once.	Yes
Ownership of commercial real estate.	No
Ownership of a multifamily 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 the 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 the 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
Ownership of a property that is held in the name of a limited liability company (LLC) or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 50% or less, regardless of the entity (or borrower) and is not personally obligated on the mortgage.	No



Ownership of a property that is held in the name of an LLC or partnership where the borrower(s) have an individual or combined ownership in the LLC or partnership of 50% or less and the	Yes
financing is in the name of the borrower.	
Ownership of a manufactured home and the land on which it is situated that is titled as real	Yes
property.	Tes
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien	No
on the home).	140

Refer to the Cash Reserves section for reserve requirements on multiple financed properties.

3.10 Private Transfer Fees

Transfer fees are contractual arrangements where an owner pays a fee at the time of transferring the property. Private transfer fee covenants are mechanisms attached to real property that require a fee to be paid to a third party (frequently the property developer) upon each re-sale of the property.

- The fee may be expressed as a fixed amount or determined as a percentage of the value of the property or purchase price
- The fee may also be called a reconveyance fee, property transfer fee, or a capital recovery fee
- Depending on the home and where it's built, the fee may be in place for decades

Ineligible Private Transfer Fees

Loans securing properties encumbered by a private transfer fee covenant requiring payment to an organization that does not directly benefit the property on which it is assessed are not eligible.

Eligible Private Transfer Fees

Private transfer fees paid to homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use the private transfer fee proceeds to benefit the property are eligible. Fees that do not directly benefit the property are subject to the FHFA Private Transfer Fee Regulation, and would disqualify mortgages on the property.

Most properties do not include a private transfer fee. Some ways to find out about a transfer fee on a property:

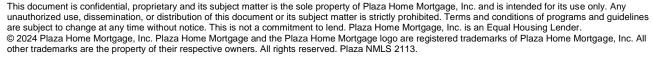
- Sales Disclosures should include the existence of the fee and an explanation on why it is imposed should be
 included in the sales disclosure if there is a fee. Even if the seller is the one who pays the fee at the time of the
 purchase, the borrower will eventually need to pay the fee when they sell the property at some future date.
- If a private transfer fee is not disclosed at the time of contract, the title report issued during the sale will typically include this information, as this fee should be listed as a covenant against the property.
- Association, and Purchase Documents (including all addenda) Documents should be thoroughly reviewed to
 ensure a transfer fee is not imposed when the property changes hands.

All private transfer fees must be researched and documentation must be provided to evidence the private transfer fees are acceptable under the FHFA Final Ruling.

3.11 Identity of Interest

Identity of Interest generally defines certain transactions which pose an increased risk and additional precautions must be taken to prudently evaluate identity of interest transactions. In-depth analysis of transactions between parties with family or business relationships may reveal unsupported values, straw borrowers, non-arm's length or at-interest influences, inflated sales prices, or excessive fees or disbursements.

Plaza uses the term Identity of Interest Transaction to describe these scenarios generally. Examples of Identity of Interest transactions include, but are not limited to, the following examples:





- Non-Arm's Length
- At-Interest Transactions/Borrower as Interested Party
- Transactions with Nonfamily Members
- Transactions with Family Members

3.12 Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Plaza will allow non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing.

For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Plaza will only close loans secured by a principal residence.

Plaza will not close loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

3.13 Property Flips (09/22/2023)

A property flip occurs when an owner (individual or entity other than the mortgage holder) sells a property within 12 months after the date of acquisition. The underwriter should ensure that value is supported. Please note that MI companies have flipping guidelines that may be more restrictive than Plaza guidelines, refer to the MI guidelines for < 90 days property flip with LTV > 80%.

All Flips

- There can be no pattern of previous flipping as evidenced by multiple transfers in the last 12 months.
- No double escrows or assignment of sales contract.
- Seller of record must own the property at the time of the purchase contract.
- Full appraisal required.

Flips < 90 days with value increase < 20%

- Value increase greater than 10% from acquisition to new sales price requires the appraiser to address any
 improvements that were made to the property and their impact on the value increase.
- If improvements were not made to the property, an additional appraisal review product may be required to support the appraised value/purchase price.

Flips < 90 days with value increases > 20%

- Value increase greater than 20% from acquisition to new sales price generally require documented improvements to support the increase in value.
- The appraiser should address any improvements that were made to the property and provide photos of the improvements.
- If the value increase is not the result of documented improvements, a second full appraisal is required to support the value/sales price.

Flips from 91 days to 12 months



• A transaction where the property has been re-sold within the last 12 months requires extra scrutiny by the underwriter to ensure the transaction is a legitimate non-arms' length sale and that the appraised value is supported. Some characteristics of fraudulent transactions include, but are not limited to, foreclosure bailouts, distressed sales and inflated values due to stated improvements that are unsupported.

3.14 Escrow Waivers (6/16/2023)

Escrow waivers may be considered on Conforming Conventional loans only, however as a best practice, escrows should always be collected.

- Escrow waivers are NOT permitted for LTV > 95%
- Escrow waivers for LTV > 90% & <= 95%, REQUIRES a minimum of 3 months verified reserves
- Impounds should NOT be waived for borrowers with blemished credit histories or first-time homebuyers (FTHB)
- Escrow deposits for the payment of premiums for mortgage insurance may NOT be waived

Section 4 Credit

4.1 Credit Report and Credit Score Requirements (1/31/2024)

The following is a list of requirements for credit reports:

- The report must include both credit and public record information for each locality in which the borrower has resided during the most recent 2-year period.
- If credit reports from foreign countries are required to document borrower credit histories, the credit report must meet the requirements and standards for domestic reports and must be completed in English or include an English translation.
- The report must include all discovered credit and public information that is not considered obsolete under FCRA.
- The report must be an original report, with no erasures, white-outs, or alterations.
 - An automated credit report or one that is transmitted by fax is considered to be an "original" report.
- The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.
- The credit reporting agency must make responsive statements about all items on the credit report—indicating "unable to verify" or "employer refused to verify," when appropriate.
- The credit report must include the fico key factors for each score returned.

Credit scores are required for mortgage loans reviewed by Plaza Home Mortgage. The classic FICO credit score is produced from software developed by the Fair Isaac Corporation and is available from the three major credit repositories. Plaza requires the following versions of the classic FICO score for DU, LPA, and manually underwritten mortgage loans:

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

The client must request these FICO credit scores for each borrower from each of the three major credit repositories..

*A soft pull credit report, that includes all the above requirements, is allowed on non-credit qualifying VA IRRRLs only.

AUS Credit Scores



Regardless of AUS approval, for a credit score to be considered valid, the score must be generated based on sufficient credit depth and at least one borrower must have a valid credit score. Some programs may require two or more scores. Defer to the program guidelines for requirements. The credit file must include complete and accurate information to ensure the validity of the credit score. Refer to **One Borrower No Credit Score** for additional requirements.

4.2 Credit Inquiries

When the credit report indicates that recent inquiries took place, the underwriter must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

Inquiries

The credit report must list all inquiries that were made in the previous 90 days.

4.3 Credit Report Corrections

When erroneously reported credit is identified on the credit report, the credit report must be corrected and scores recalculated as required for the particular program. To assist with this process, Plaza can pull credit through CoreLogic CREDCO. Request the corrections through the following contacts:

CoreLogic CREDCO Rapid Recheck/Rescore 800-523-0233 Fax: 800-523-0688

CoreLogic CREDCO requires a **Rapid Recheck Order Form** to be completed. Contact the appropriate party to determine what documentation must be sent and how quickly a response can be expected, as turn times vary, depending on current volumes.

4.4 One Borrower No Credit Score

Fannie Mae-DU Casefiles

If one (or more) borrower(s) has a credit score **and** at least one borrower does not have a credit score, DU will apply the following requirements:

- The property must be a 1-unit, principal residence, and all borrowers must occupy the property.
- The transaction must be a purchase or limited cash-out refinance.
- The loan amount must meet the general loan limits—high balance mortgage loans are not eligible.
- Reserves may be required as determined by DU.
- If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the underwriter is not required to document a nontraditional credit history for the borrower(s) without a credit score.
- If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the underwriter must document a nontraditional credit history for each borrower without a credit score.

Freddie Mac-LPA Casefiles

If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, LPA will apply the following requirements:



- At least one borrower on the transactions must have a usable Credit Score, as determined by LPA
- The transaction must be a purchase or "no cash-out" refinance
- The mortgage must be secured by a 1-unit property and all borrowers must occupy the property as their primary residence

In addition, if the borrower(s) without a usable credit score contributes 50% or more of the total monthly income, the underwriter must determine that the mortgage meets the following requirements:

Each borrower without a usable credit score must have at least two payment references in the United States
comprised of noncredit payment references and/or tradelines not appearing on the credit report. If two or more
borrowers without a usable credit score have the same payment reference, then the payment reference may
count for each of the borrowers.

Additionally:

- Each payment reference may have existed for at least the most recent 12 months
- At least one borrower without a usable credit score must have a housing payment history as one of the payment references; and:
 - In the event more than one borrower without a usable credit score has a housing payment history, then all such housing payment histories for the most recent 12 months (or length of housing payment history if less than 12 months) must be verified
 - All housing payment histories must have no 30-day or greater delinquencies in the most recent 12 months
- For all payment references other than housing:
 - Only one payment reference may have one 30-day delinquency in the most recent 12 months; and
 - All payment references must have no 60-day or greater delinquencies in the most recent 12 months
- Each payment reference must:
 - Meet the requirements for written verifications, and
 - Meet the age of documentation
- Each borrower without a usable credit score must have no collections (other than medical), judgments or tax liens filed in the most recent 24 months.

4.5 Derogatory Credit Matrix (11/30/2021)

Table 4-1 Fannie Mae Waiting Periods			
Condition	Wait Period Only If Extenuating Circumstances Exist	Standard Wait Period for Financial Mismanagement	
Chapter 7 or 11	2 years, measured from discharge or dismissal date.	4 years, measured from discharge or dismissal date.	
Chapter 13	2 years, from discharge or dismissal date.	* 2 years, from discharge date OR 4 years from the dismissal date. *The shorter wait period for discharge date recognizes that borrower has already met a portion of wait period due to successful completion of the Chapter 13 plan. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a 4-year waiting period.	



	_	,
		5 years or greater, measured from the most recent discharge date or dismissal date.
Multiple Bankruptcy Filings Within the Last 7 Years	3 years or greater, measured from the most recent discharge date or dismissal date. AND There is evidence the most recent bankruptcy filing was a result of extenuating circumstances.	Note: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the coborrower has one bankruptcy this is not considered a multiple bankruptcy.
		Fannie Mae
Mortgage Debt Discharged through Bankruptcy		If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.
Foreclosure	3 years, measured from completion date of foreclosure action as defined for standard wait period. The following additional requirements apply between 3 and 7 years, which include: • DU Loans • Maximum LTV, CLTV, or HCLTV limits are the lesser of 90 % or the maximum LTV, CLTV, or HCLTV limits for the transaction per Eligibility Matrix or Plaza program guidelines. • Purchase - Primary Residence only. • Limited cash-out refinances – primary, second home and investment eligible if program and DU allow at time loan is underwritten.	7 years, measured from completion date of foreclosure action as reported on the credit report or other foreclosure documents provided by borrower. Note: The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a 7-year waiting period has elapsed.
Deed-in-Lieu of Foreclosure and Pre-	DU: 2 years	DU: 4 years
foreclosure/ short sale		

^{*}The maximum LTV ratios permitted are the lesser of the LTV ratios in the above table or the maximum LTV ratios for the transaction per the **Eligibility Matrix**.



Freddie Mac Waiting Periods		
Significant Derogatory Event	Recovery Time Periods for Reestablishment of Credit with Extenuating Circumstances	Additional Requirements
Foreclosure	Defined by LPA (Loan Prospector Automated) Underwriting System	
Deed-in-lieu of foreclosure	Defined by LPA (Loan Prospector Automated) Underwriting System	Defined by LPA (Loan Prospector Automated) Underwriting System
Short sale	Defined by LPA (Loan Prospector Automated) Underwriting System	
Bankruptcy (All bankruptcy actions)	Defined by LPA (Loan Prospector Automated) Underwriting System	Defined by LPA (Loan Prospector Automated) Underwriting System
Other significant adverse or derogatory credit information		Defined by LPA (Loan Prospector Automated) Underwriting System

Note: References to LTV limits include LTV, CLTV, and HCLTV limits.

Table 4-2		
Underwriter's Written Analysis	Underwriter elects to use Extenuating Circumstances	Must be a complete analysis fully detailing that the application has re-established an acceptable credit history. May be documented on the Transmittal Fannie Mae Form 1008.
Requirements for Re- establishing Credit	After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or pre-foreclosure sale, the borrower's credit will be considered re-established if all of the following are met: • The waiting period and the related additional requirements are met. • The loan receives an Approve/Eligible or LPA Accept and meets minimum credit score requirements. • The borrower meets minimum trade-line requirements per program guidelines. • Non-traditional credit is not acceptable for meeting reestablished credit requirements after major derogatory.	
	 Additional Requirements All existing credit obligations must be current at the time of the application. No more than 2 x 30-day late payments on installment and/or revolving accounts in the most recent 24 months. No 60-day late payments allowed on any installment and/or revolving debt during the derogatory event waiting period. No past due housing payments during the derogatory event waiting period. No new public records for bankruptcies, judgments, or collections allowed during the derogatory event waiting period. 	

Limited or Non-Traditional Credit History 4.6



For all Conventional loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. AUS messages and Agency guidelines for non-traditional credit references must be followed when one borrower on the loan does not have a credit score.

Unacceptable Uses

Non-traditional mortgage credit reports are not acceptable in the following situations:

- When Plaza is able to obtain a credit score for the borrower despite limited use of credit, and that score is acceptable given the overall risk of the mortgage.
- When the borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. Plaza may not establish an acceptable credit profile through the development of a nontraditional mortgage credit report.
- When the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts, or judgments. Non-traditional mortgage credit report cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.
- When the borrower has no credit history. Nontraditional mortgage credit reports cannot be used to artificially create a credit history.

4.7 Authorized User Accounts 10/12/2018

Fannie Mae

For manually underwritten loans, credit report tradelines that list a borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.

An authorized user tradeline may be considered if:

- Another borrower in the mortgage transaction is the owner of the tradeline; or
- The borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

If written documentation of the borrower's monthly payments on the authorized user tradeline is provided, then the payment history – particularly any late payments that are indicated – must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse and the spouse is not a borrower on the mortgage transaction.

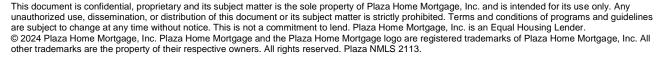
Freddie Mac

When the borrower's credit report contains tradelines for accounts for which the borrower is not the primary account holder but is listed as an authorized user, Loan Product Advisor will return a feedback message indicating when the following requirements must be met:

- The mortgage file must contain documentation evidencing that for each authorized user account:
 - o Another borrower on the mortgage owns the tradeline in question, or
 - o The tradeline is owned by the borrower's spouse, or
 - o The borrower has been making the payments on the account for the last 12 months

OR

• If one of the above requirements is not documented for each authorized user account, the underwriter may make the determination that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The





underwriter should base its determination on the number of the borrower's own tradelines, as well as their age, type, size and the payment history.

4.8 Fraud Alerts and Identity Theft (09/22/2023)

Plaza does not deny credit or reduce lending limits solely because the applicant was a victim of identity theft or because information in the credit report is verified to be inaccurate (such as reported accounts that do not belong to the borrower or derogatory information that was reported in error).

Plaza considers identity theft to have occurred when, at a minimum, the borrower provides a report that:

Alleges an identity theft.

Borrower to provide a copy of a police report evidencing a claim of identity theft and a properly completed copy of the standardized affidavit of identity theft made available by the FTC at http://www.consumer.ftc.gov/features/feature-0014-identity-theft or other government agency, ITAC (Identity Theft Assistance Center) or a financial institution.

A written explanation from the borrower.

When the credit report reflects a victim statement under the FACT Act, Plaza's underwriter should refer to Plaza's **Compliance Manual** for proper procedures and underwriter required certification.

All three national credit repositories have developed automated messages to help identify possible fraudulent activity on a credit report. These alerts are known as FACT Act messages (referred to as: Hawk Alert, FACS+, or SafeScan).

The underwriter should properly address and resolve all Alert messages prior to funding the loan. All alert messages shown on a credit report (particularly those in Fraud Verification information section) must be addressed and resolved prior to closing the loan.

Fraud Alert Message

Security Alert or Consumer Statement on the file relates to true name or credit fraud.

What Does It Mean

 The consumer's file contains a statement indicating that the consumer has been a victim of true name or credit fraud.

Why Was it Generated

• The consumer has added a protective statement to their file or has been a victim of fraud. Applicant may be misusing the consumer's identity to obtain credit.

Suggested Actions

 Review Consumer Statement found at the end of the report. Contact consumer directly at the telephone number listed in the Consumer State before Issuing credit.

Active Duty Alert Message

The consumer's file contains a statement indicating that the consumer is on active military duty.

Why Was It Generated

• The consumer put a statement on file to alert credit grantors that they are currently out of the country on active military duty. Applicant may be missing the consumer's identity to obtain credit. The consumer may have forgotten to remove the alert upon returning home.

Suggested Actions

• Review Alert Notification found in the Special Messages section of the report.



• Contact consumer directly at the telephone number listed in the Alert Notification before issuing credit, issuing a new card, or increasing credit limit.

Frozen Credit (FHLMC & FNMA) (09/22/2023)

If a borrower with traditional credit has frozen information with one of the credit repositories, the credit report is still acceptable as long as the following items are met:

- a tri-merged credit report was ordered,
- data is available from two repositories, and
- a credit score is obtained from at least one of those two repositories.

Loans for borrowers with credit data frozen at two or more of the credit repositories are not eligible.

Section 5 Liabilities

5.1 Past-Due, Collections, and Charge-Off Accounts

Accounts that are reported as past due (not reported as collection accounts) must be brought current. Medical collections are excluded from this requirement.

• For 1-unit, principal residence properties, borrowers are not required to pay off outstanding collections or charge-offs - regardless of the amount.

Note: If the underwriter marks the collection account Paid by Close in the online loan application, DU will issue a message in the Findings report stating that the collection must be paid.

- For 2-4 unit owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.
- For investment properties, individual 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.

Charge-off of Mortgage Accounts for Fannie Mae

A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9".

Fannie Mae has established a new policy to specifically address charge-offs of mortgage accounts by requiring a 4-year waiting period following this derogatory credit (2 years if the borrower can demonstrate extenuating circumstances). In addition, the existing charge-off policy in Fannie Mae's Selling Guide has been relabeled as "non-mortgage charge-offs" to clearly differentiate the two policies.

Note: Government programs may have different requirements regarding collections. Refer to program guidelines for specific requirements.

5.2 Judgments, Garnishments, and Liens



Open judgments and all outstanding liens, that are in the Public Records section of the credit report will be identified in the Underwriting Findings report. Judgments and Liens must be paid off at or prior to closing unless otherwise specified in the AUS report.

Garnishments

All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.

5.3 Short Refinance Payoff

A short payoff is a mortgage loan in which the servicer/investor of the mortgage agrees to a payoff of a lesser amount than is actually owed, even on a current mortgage. Plaza considers this as modified with principal forgiveness.

Transactions meeting this definition are not allowed.

5.4 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 must continue to be made for more than 10 months the payments must be considered as part of the borrower's recurring monthly debt obligations. However, 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 will be paid.

For alimony obligations, the underwriter has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the underwriter exercises this option, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

Note: For loan casefiles underwritten through DU, the lender must enter the obligation as a negative income amount as its own line item rather than reducing another income type by the amount of the obligation. The DU message requiring inclusion of the alimony obligation as monthly liability may be disregarded. Documentation confirming the amount of the alimony obligation must still be obtained.

5.5 Business Debt in Borrower's Name

When a self-employed borrower claims that a monthly obligation appearing on his or her personal credit report is being paid by the borrower's business, the underwriter must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency.
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), AND



• The underwriter's cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence that it paid the obligation, but the underwriter's 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). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the underwriter should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

5.6 Debts Paid By Others (Fannie Mae)

Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:

• When a borrower is obligated on a non-mortgage debt – but is not the party who is actually repaying the debt – the underwriter may exclude the monthly payment from the borrower's recurring monthly obligations. This applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.

When a borrower is obligated on a mortgage debt –but is not the party who is actually repaying the debt—the underwriter may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligation if:

- The party making the payments is obligated on the mortgage debt,
- There are no delinquencies in the most recent 12 months, and
- The borrower is not using rental income from the applicable property to qualify.

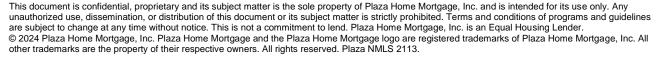
In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the underwriter must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties (if applicable).

5.7 Contingent Liabilities (Freddie Mac)

For Loan Product Advisor Mortgages and Non-Loan Product Advisor Mortgages, if the borrower is a co-signer/guarantor on a debt (which includes mortgage debt) for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in debts submitted to LPA or considered by the underwriter when manually qualifying the borrower.

A contingent liability may be excluded from the monthly debt payment-to-income ratio when meeting the requirements in the table below. The documentation used to exclude the liability must meet the age of documentation requirements in **Section 5102.4**.





Debt type	Eligibility and documentation requirements
 Installment (not including Mortgages) Revolving Monthly lease payment 	 A party other than the Borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt) The party making the payments is not an interested party to the subject real estate or Mortgage transaction*
Mortgage Other property-related expenses (e.g., taxes, insurance, HOA dues, etc.)	 A party other than the Borrower has been making timely payments for the most recent 12 months The party making the payments is obligated on the Note for the Mortgage that is being excluded The party making the payments is not an interested party to the subject real estate or Mortgage transaction*

If the payments on the contingent liability have not been timely over the most recent 12 months the liability must be included in the data submitted to Loan Prospector and included in the monthly debt payment-to-income ratio.

Assumed Mortgage: If the borrower is listed as the borrower on a mortgage that has been assumed by another, the underwriter must obtain a copy of the documents transferring the property and any assumption agreement executed by the transferee. As long as the borrower no longer owns the property, the contingent liability may be disregarded, without having to document the most recent 12 months payment history.

Assigned debt: The contingent liability (on a secured or unsecured debt, including a Mortgage) also may be excluded/disregarded and the documentation of the most recent 12 months payment history is not required, if the obligation to make the payments on a debt of the borrower:

- Has been assigned to another by court order, such as a divorce decree. AND
- The underwriter documents the order (provides appropriate pages from the separation agreement or divorce decree) and documents the transfer of title.

Self-employed Borrower's debt paid by the Borrower's business: When a self-employed Borrower is obligated on a debt that has been paid by the Borrower's business for 12 months or longer, the monthly payment for the debt may be excluded from the monthly debt payment-to-income ratio if the following requirements are met:

- The Mortgage file contains evidence that the debt has been paid timely by the Borrower's business for no less than the most recent 12 months, and
- The tax returns evidence that business expenses associated with the debt (e.g., interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business

(See FHLMC guide section 5401.2 for more details).

5.8 Court Ordered Assignment of Debt



When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The underwriter is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations. The underwriter is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The underwriter cannot disregard the borrower's payment history for the debt before its assignment.

5.9 Deferred Student Loans

For a deferred student loan, if the actual payment cannot be determined, a payment should be calculated:

Table 5-1		
	For all student loans, whether deferred, in forbearance, or in repayment (not deferred), a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower must be included.	
	If a monthly payment is provided on the credit report, the underwriter may use that amount as the monthly payment for qualifying purposes.	
Fannie Mae	If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment the underwriter must calculate a qualifying monthly payment using one of the options below:	
	• If the borrower is on an income-driven payment plan, the underwriter may obtain student loan documentation to verify the actual monthly payment is \$0. The underwriter may then qualify the borrower with a \$0.	
	 For deferred loans or loans in forbearance, the underwriter may calculate 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. Student Loans in deferment, forbearance or repayment and income driven plans 	
Fraddia Maa	 In all cases, an amount greater than zero must be included in the monthly debt-ratio; If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report, unless documentation in the file supports a different current payment amount greater than zero, or If the monthly payment amount reported on the credit report is zero, use 0.5% of the outstanding balance, as reported on the credit report, unless documentation in the file supports a different current payment amount greater than zero. 	
Freddie Mac	 For student loans in income-driven repayment plans, the monthly payment as described above may be used, unless documentation indicates the borrower must re-certify their income and their payment will increase prior to or on the first mortgage payment due date. When documentation in the mortgage file indicates the borrower must re-certify their income, and the borrower's payment will increase, the greater of the following is used: .5% of the outstanding balance or the documented future payment if greater than the current, or the future payment that is less than the current payment provided the income has been recertified and the lower payment has been approved. In any case, the payment must be greater than zero. 	

5.10 Installment Loans

Installment debt that is not secured by a financial asset, including student loans, automobile loans, timeshares and home equity loans, must be included in the borrower's monthly debt obligations, if there are more than 10 months remaining. On a case-by-case basis, an installment debt with fewer than 10 monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations.



Lease payments are not considered installment debt. Refer to the Lease Payment section below for requirements.

Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

5.11 Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease or the purchase of a new vehicle or house.

5.12 Non-Reimbursed Employee Expenses

- Unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower's
 qualifying income or added to monthly liabilities. This applies regardless of whether unreimbursed employee
 business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS.
- Union dues and other voluntary deductions identified on the borrower's paystub do not need to be deducted from the borrower's income or treated as a liability.

5.13 Revolving Accounts

For DU loan case files, if a revolving debt is listed on the loan application does not include a monthly payment amount, DU will use the greater of \$10 or 5% of the outstanding balance as the monthly payment when calculating the total DTI ratio.

Freddie Mac

In the absence of the stated payment on the credit report or direct verification 5% of the outstanding balance will be considered the required monthly payment.

5.14 Payoff or Pay Down of Debt (5/10/2023)

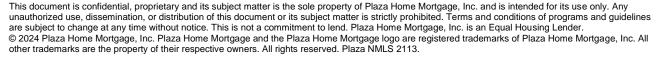
Payoff or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

Generally, installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.

If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the DTI ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

When a revolving debt is excluded and indicates "to be paid" at closing, the payment on the credit report may be used if the account has been reported within 30 days of the Note date. If the credit report is older than 30 days of the Note date, an updated payoff amount/demand must be obtained via a statement or an online update of the balance that shows the amount to be paid, "matching" account number and borrower name.

NOTE- Documentation should clearly identify the source of funds used to pay off the debt and confirm there are sufficient verified assets remaining for the transaction.





- If paid prior to closing, the payoff amount on the bank statement(s) must clearly tie to the credit report and/or subsequent statement/online update of the balance.
- If paid at closing, the payoff amount must show on the Closing Disclosure.
- If the lender identifies the source of the funds as another party (not the borrower), it should determine whether the funds resulted in a new liability for the borrower; and if so, the lender must include the monthly payment in the borrower's qualifying debt-to-income ratio.

Note: Payoff of revolving accounts in order to qualify is not allowed on Co-Ops and Elite Non-Conforming. This includes revolving accounts that are paid off and closed.

5.15 Exclusion of Debt

The underwriter must provide supporting documentation, remove the debts from the loan application, and resubmit the loan casefile to the AUS to exclude the debt.

5.16 Undisclosed Liabilities

If additional liabilities are discovered up to and concurrent with the loan closing each additional debt must be documented as follows:

- Verify the unpaid balance.
- Verify the terms of repayment.
- Verify the borrowers pay history (if applicable) by obtaining documentation from the borrower or creditor.

Additional steps to determine no undisclosed liabilities are present include, but are not limited to:

- Verification of MERS report to verify no additional liens or undisclosed properties exist for all applicants.
- In community property states, MERS report to verify no additional liens or undisclosed properties exist for non-purchasing spouse.

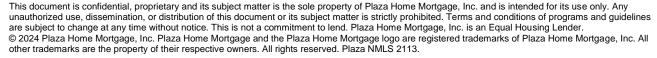
When undisclosed liabilities are discovered, the DTI must be recalculated based on the additional debt, and must be reunderwritten through the AUS system if outside tolerance of AUS or loan program guidelines.

5.17 IRS Installment Agreements (09/22/2023)

FNMA:

When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The lender obtains the following documentation:
 - o an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
 - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable
 evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount
 and date and the next payment amount owed and due date. At least one payment must have been made
 prior to closing.





NOTEThe payments on a federal income tax installment agreement can be excluded from the borrower's DTI ratio if the agreement meets the terms in Debts Paid by Others or Installment Debt described in B3-6-05, Monthly Debt Obligations. If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS in accordance with B3-6-07, Debts Paid Off At or Prior to Closing.

Freddie Mac (FHLMC): (09/22/2023)

When the Borrower has delinquent federal income taxes and the monthly payment is included in the DTI the following requirements must be met:

Approved IRS installment agreements.

- The payment associated with the installment agreement must be included in the calculation of the Borrower's debt payment-to-income ratio if there are more than 10 months of payments remaining under the agreement.
- The Seller must document in the Mortgage file a copy of the installment agreement approved by the IRS verifying the payment terms, including the monthly payment amount and balance.
- The Seller must document in the Mortgage file verification that the Borrower is not past due under the terms of the installment agreement.
- There must be no indication, and the Seller must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed under the installment agreement.

Applications for installment agreements **pending IRS approval** (FHLMC only):

When the Borrower has applied for an installment agreement with the IRS that is pending IRS approval, the following requirements must be met:

- A copy of the application for the installment agreement reflecting the amount of taxes owed and requested payment terms must be included in the Mortgage file.
- The greater of the monthly payment amount requested by the Borrower or the amount of taxes owed divided by 72 must be included in the Borrower's monthly debt payment-to-income ratio, and
- There must be no indication, and the Seller must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed by the Borrower.

Guide impact: Section 5401.2

Section 6 Employment and Income

6.1 Income Analysis Form/Worksheet & LoanBeam (09/22/2023)

The Plaza **Income Worksheet** is required on all transactions needing income, or in which income was used in the decision.

The LoanBeam Worksheet is mandatory in the following scenarios where income is used to qualify:

- Borrower is Self-Employed
- Borrower is W-2 but has an ownership percentage that requires Business/Corporate tax returns be provided
- If updated tax returns are provided for any reason, they must be submitted to LoanBeam.
- Undewriters must include the LoanBeam reference number when running AUS to obtain income reps and warrants when available.



** It is critical the Underwriter cross check the income calculation against the results of LoanBeam. Any variation between LoanBeam and the Income worksheet must be reconciled. The income workbook should fully explain the calculation used and reason.

6.2 Employment Gaps (09/22/2023)

The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps in employment.

Table 6-1		
Non-fluctuating Income Only	Written letters of explanation for employment gaps are not required. However, borrowers re-entering the workforce after an extended absence should be carefully reviewed to ensure a 2-year work history prior to the absence from the workforce is documented. Additional documentation may be required to support stability of income (documentation supporting job loss, prior employment in same or related field, education, or training supporting new job).	

Note: Government programs may have different requirements regarding gaps in employment. Refer to program guidelines for specific requirements.

6.3 Hourly Employment (11/22/2023)

- When a borrower has a history of fluctuating hours, underwriters must comply with the applicable agency's guidelines for analyzing and calculating income.
 - Generally, a two-year history of hourly earnings is required, however exceptions may be considered for borrowers with a one-year history. Under no circumstances may the employment history be less than 12 months.
 - O Hourly earnings must be averaged. A standard hourly calculation is generally not acceptable when there is a history of fluctuating hours. *Refer to Freddie Mac FAQs for further details on LPA loans. The required minimum 12-month history must be documented from the borrower's current employment or a combination of the current and previous fluctuating hourly employment. If a borrower has less than a 12-month recent history of fluctuating hours, the income is ineligible.

6.4 Bonus or Overtime

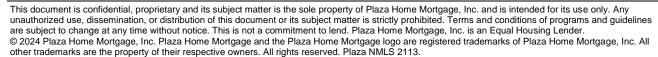
DU loans: Borrowers relying on overtime and bonus income for qualifying must have a history of no less than 12-months before the income may be considered. While fluctuations in overtime income are expected, overtime that shows a significant declining trend is not considered stable.

Obtain the following documents:

- A completed Form 1005 or Form 1005(S) OR
- The borrower's recent paystub and IRS W-2 forms covering the most recent 2-year period.

LPA loans must comply with Freddie Mac's requirements for fluctuating income. If the income between the prior and current year exceeds 30%, additional analysis is required to support the use of the earnings. The rationale must be documented on the 1008.

6.5 Commission Income





Fannie Mae

Requirements for the verification of commission income are as follows:

- A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
- One of the following must be obtained to document commission income:
 - A complete Request for Verification of Employment (Form 1005 or Form 1005(S)), or
 - The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
 - A verbal VOE is required from each employer.

Freddie Mac

Verification requirements for commission income:

- A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
 - A completed Request for Verification of Employment OR
 - o The borrower's recent paystub and IRS W-2 forms covering the most recent 2-year period.
- A VVOE is required from each employer. See Verbal Verification of Employment.

6.6 Projected or Proposed Income (Conventional Loans Only) (11/01/2023)

Employment starting prior to the Note Date:

All of the following requirements must be met:

- A legally binding employee contract must be provided. Offer letters are not acceptable. The borrower must have started employment at the new position as per the terms of the employee contract.
- VOE is required if the borrower has not yet received a paystub.
- Verification that the borrower has started employment must be done prior to loan closing.
- The borrower cannot be employed by a family member or interested party to the transaction.

Employment and Income Commencing After the Note Date:

If the property is a 1-unit primary residence and the transaction is a purchase, employment and income commencing after the Note date may be used as part of the income qualification if the borrower has a non-contingent employment contract and is not employed by a family member or interested party to the transaction.

DU loans must meet Fannie Mae requirements:

- Plaza only allows Fannie Mae's Option 2. Refer to Fannie Mae's Selling Guide B3-3.1-09 Employment
 Offers or Contracts.
- The underwriter must identify Special Feature Code (SFC) 707.

LPA loans must meet Freddie Mac requirements:

 Plaza only allows Freddie Mac's Additional Requirements Option 1. Refer to Freddie Mac Seller Guide Section 5303.2(e) and the Loan Product Advisor Documentation Matrix for complete details on income.

6.7 Secondary Employment

Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. The underwriter must verify the following:



- Verification of a minimum history of 2 years of uninterrupted secondary employment income is recommended.
- Income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
- A borrower may have a history that includes different employers, which is acceptable as long as income has been
 consistently received. In no instance may the borrower have any gap in employment greater than one month in
 the most recent 12-month period, unless the secondary employment is considered seasonal income (subject to
 the requirements below).

6.8 Seasonal Employment

Verify that the borrower has at least a two-year history of seasonal employment and income.

For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, seasonal unemployment compensation cannot be used to qualify the borrower.

6.9 Temporary Income (2/9/2023)

Temporary employment may be considered when the borrower works through an agency (or agencies) and has demonstrated this to be a stable form of income. The borrower's work history must be verified for 2 years and the borrower must have worked steadily as a temporary employee for a minimum of 24 months.

- Income will be averaged over the 2-year period, but never less than 24 months.
- Obtain W-2s for the most recent 2 years plus a current paystub documenting at least 30 days of income.

No consideration will be given to temporary income of a borrower who is not employed through a temporary agency and whose sole employer states the borrower's employment is temporary.

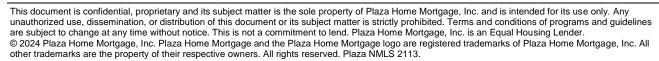
6.10 Furloughed Borrowers

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

If an underwriter is made aware that a borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, the underwriter must determine allowable income and confirm employment.

Temporary Leave — Employment Requirements

- The borrower's employment and income history must meet standard eligibility requirements.
- The borrower must provide written confirmation of his or her intent to return to work.
- The underwriter must document the borrower's agreed upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.
 - Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee's system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy.)





- The underwriter must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.
- The underwriter must obtain a verbal verification of employment.
- If the employer confirms the borrower is currently on temporary leave, the underwriter must consider the borrower employed.
- The underwriter must verify the borrower's income in accordance with established guidelines and must obtain:
 - The amount and duration of the borrower's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period. AND
 - The amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

Requirements for Calculating Income Used for Qualifying

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

If the borrower will not return to work as of the first mortgage payment date, the underwriter must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the underwriter may supplement the temporary leave income with available liquid financial reserves.

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

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

Available liquid reserves

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

Number of months of supplemental income

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

After determining the supplemental income, the underwriter must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income

The total qualifying income that results may not exceed the borrower's regular employment income.

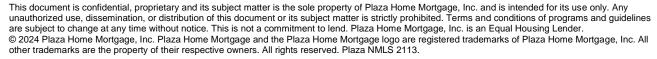
6.11 Employment Related Assets as Qualifying Income (11/01/2023)

Fannie Mae Requirements

- Refer to the FNMA Selling Guide, Employment-Related Assets as Qualifying Income, section B3-3.1-
- The completed "Asset Depletion" income worksheet (FM-668) must be saved to the loan file.

Freddie Mac Requirements

Refer to the FHLMC Selling Guide, Assets as a basis for repayment of obligations, section 5307.1.





• The completed "Asset Depletion" income worksheet (FM-668) must be saved to the loan file.

6.12 Assets Used for Qualifying Income (11/01/2023)

Not allowed on all programs. Refer to the program guidelines to ensure the Assets Used for Qualifying Income guidance applies.

Freddie Mac (Conventional)

- Follow the guidance in Freddie Mac Selling Guide, Assets as a basis for repayment of obligations, section 5307.1
- The completed "Asset Depletion" income worksheet (FM-668) must be saved to the loan file.

Fannie Mae (Conventional Wholesale Transactions ONLY) *PHM Exception approval required

Assets may be used for Qualifying Income if all requirements below are met:

- Desktop Underwriter (DU) Approve/Eligible required.
- Primary Residence (1-2 unit) or Second Home
 - o Investment properties are not eligible
 - Manufactured homes and 3–4 unit properties are not eligible
- LTV:
 - Purchase or Rate/Term Refinance: 80% max
 - Cash-Out Refinance: 60% max
- Credit Scores:
 - 680 for LTV/CLTV <= 70%
 - 720 for LTV/CLTV > 70%
- Minimum Net Documented Assets Required:
 - Purchase or Rate/Term Refinance: The lesser of \$500,000 or 1.5 times the loan amount in eligible assets are required after closing (exclusive of funds for down payment, closing costs, reserves, etc.)
 - Cash-out Refinance: \$500,000 (exclusive of closing costs, reserves, etc.)
 - Net Documented Assets are the sum of eligible assets (as described in this section) less funds used for closing costs and reserves.
- Assets Seasoning:
 - Purchase / Rate & Term >= 720 Credit Score: 12 months
 - Purchase / Rate & Term < 720 Credit Score: 24 months
 - o Cash-out: 24 months
- Assets must be liquid and be individually owned by the borrower, or if not individually owned, all account
 holders must be borrowers or co-borrowers on the loan.
 - Non-occupant co-borrowers' assets are only allowed when the occupant borrowers are also account holders of the asset.
- All assets must be available to the borrower/co-borrower without penalty.
- Eligible Assets:
 - Checking/savings, money market, certificates of deposit
 - o 70% of value of: Stocks, bonds, mutual funds (if using assets for income the following cannot also be used: interest, dividends and capital gains from the same assets)
 - Trust accounts
 - Cash value of vested life insurance policy
 - Vested amounts in a retirement savings account (if funds are in stocks, bonds or mutual funds then 70% of the vested value may be used).
 - For retirement funds to be eligible they must be vested and they must be available for withdrawal prior to retirement and prior to employment termination.



- Monthly qualifying income is determined by dividing the net documented assets by the term of the loan (in months).
- The completed "Asset Depletion" income worksheet (Plaza's form FM-668) must be saved to the loan file.
- The underwriter must also deliver the loan with SFC 579.
- All loans utilizing this feature must be approved through Plaza's underwriting exception process with approvals by Corporate Underwriting and Secondary Marketing.

6.13 Self Employment (5/10/2023)

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.

The following factors must be considered for all self-employed borrowers:

- · The stability of the borrower's income
- The location and nature of the borrower's business
- The demand for the product or service offered by the business
- The financial strength of the business
- The ability of the business to continue generating sufficient income to enable the borrower to make the payments on the requested mortgage
- Length of self-employment

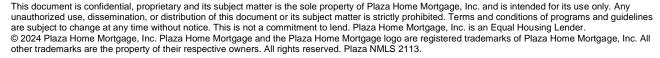
A 2-year history of self-employment is generally required. However, a person who has a shorter history of self-employment 12 to 24 months may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income for a minimum of 12-months at a stable or increasing level in a field related to the borrower's prior employment or self-employment regardless of AUS requirements. No less than 12 full months of self-employed income must be documented via the borrowers' personal and business tax returns. Careful consideration must be given to the nature of the borrower's level of experience, and the amount of debt of the business. Self-employment for a period of less than 12 months is unacceptable.

REMINDER- Refer to the 1099 Section listed below in Section 6.20, to determine if Self-Employment guides apply or Non-Self-Employment guides apply for both FNMA & FHLMC.

6.13.1 Self-Employment Income Not Used for Qualification 4/25/2022

The following chart contains requirements and guidance pertaining to self-employment income not used for qualification:

Table 6-1 Self-Employment Income Not Used for Qualification		
Freddie Mac		
Subject	Requirements and guidance	
Each Borrower on the mortgage who has a primary source of income, other that self-employment, used for qualifying (e.g., salaried income from primary employment), and is self-employed and self-employment income is a secondary source of income:	The underwriter is not required to obtain any additional documentation or evaluate the income or loss	





For each borrower on the mortgage who is selfemployed and **does not** have another source of income that is used in qualifying:

Note: This applies to a self-employed coborrower where income is not being used for qualification. When marked self-employed on the loan application with \$0 income, AUS will not show the documentation requirements. The Lender is required to document and assess any potential Self-Employed Loss.

The following requirements apply:

Pages 1 and 2 of the borrower's federal individual income tax returns, and the applicable schedules, must be obtained to determine if there is a business loss that may have an impact on the stable monthly income.

- If a business loss is reported and the borrower qualifies with the loss, any additional documentation relating to the business loss is not required
- If a business loss is reported and the borrower does not qualify with the loss, then a business and income analysis must be performed to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. Additional documentation must be obtained in order to fully evaluate the loss and support the analysis (e.g., business tax returns (final or otherwise), evidence of a one-time non-recurring event).

If the tax returns or other documentation in the file (e.g., IRS tax transcripts, additional Schedule K-1's) reflect positive income from self-employment but that income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax returns) is not required.

Fannie Mae		
Subject	Requirements and guidance	
When a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss)	A written evaluation of the underwriter's analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns to determine whether the amount of stable and continuous income will be available to the borrower is not required.	
When co-borrower income that is derived from self-employment is not being used for qualifying purposes	The underwriter is not required to document or evaluate the co- borrower's self-employment income (or loss). Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.	
	Note: Please note documentation requirement variance from Freddie Mac guidance above.	

6.13.2 Business Liquidity

It is important that the underwriter select a business liquidity formula based on how the business operates:

• The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

Quick Ratio = (current assets — inventory) ÷ current liabilities

 The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.



Current Ratio = current assets ÷ current liabilities

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

6.13.3 Schedule K-1 Income

The underwriter must use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided:

- the borrower can document ownership share (may use Schedule K-1),
- the business has adequate liquidity to support the withdrawal of earnings.

If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to income or adequate business liquidity to support the withdrawal of earning is required in order to include that income in the borrower's cash flow.

If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, the underwriter must confirm the following:

the business has adequate liquidity to support the withdrawal of earnings.

The Underwriter is not required to confirm access to the income when the borrower(s) own 100% of the business. For borrowers that do not own 100%, the underwriter must confirm access to the income via a partnership agreement, corporate resolution or other documentation.

6.14 Rental Income (Conventional) (11/02/2023)

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:

- A 2-4-unit principal residence property in which the borrower occupies one of the units.
- A 1-4-unit investment property.

Rental income generated from an ADU on a subject 1-unit Primary Residence- **FHLMC (LPA Only)

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See the Freddie Mac Selling Guides for rules and requirements to be met.

Boarder Income

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that
 individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an
 amount up to 30% of the total gross payment income that is used to qualify the borrower for the mortgage loan.
 Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental
 payments are made to the borrower.
- The HomeReady eligibility requirement to include an additional exception. See Fannie Selling Guide/HomeReady.

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The following table provides verification requirements for income from boarders.

Verification of Income from Boarders

Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.

Obtain documentation of the boarder's rental payments for the most recent 12 months.

Ineligible Properties

Rental income from the borrower's principal residence (a 1-unit principal residence or the unit the borrower occupies in a 2-4-unit property) or a second home cannot be used to qualify the borrower.

Requirements for Documenting Rental Income

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on Schedule E of the borrower's personal tax returns. If the borrower does not have a history of renting the subject property, the underwriter may be justified in using a current lease agreement. Exceptions that justify the use of a lease agreement are:

- Purchase transactions where the existing lease will transfer to the borrower
- Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing. OR
- Refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return.
- Transactions where rental income will be used for qualifying on a departing principal residence converting to an investment property.

When using a lease agreement for a property recently placed into service, the monthly amount of the lease must be validated with either

- Form 1007 or Form 1025 as applicable, OR
- The file must contain evidence that the terms of the lease have gone into effect. That evidence should include:
 - Two months consecutive bank statements evidencing receipt of rental payments, OR
 - o For new leases, copies of the security deposit and first month's rent check with proof of deposit

Subject Property Rental Income Documentation

Plaza must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

When the borrower has a history of receiving rental income from the subject property:

- o Appraisal Form 1007 or Form 1025, as applicable.
- The borrower's most recent year of signed federal income tax returns, including Schedule E. Or
- Copies of the current lease agreement(s) if the borrower can document a qualifying exception. See
 Requirements for Documenting Rental Income
- Note: If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for reporting purposes.



Fannie Mae Requirements

Refer to FNMA Selling Guide, B3-3.1-08 for complete rental income guidelines.

If the borrower	And rental income is from the	Then for qualifying purposes
 currently owns a principal residence (or has a current housing expense), and has at least a one-year history of receiving rental income or at least one year of documented property management experience 	subject property or non- subject property	there are no restrictions on the amount of rental income that can be used.
 does not currently have a housing expense, and has at least one-year of receiving rental income from the property 	non-subject property (in service for at least a year)	there are no restrictions on the amount of rental income that can be used.
 currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income from the related property or documented property management experience 	subject property	 for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or for an investment property, rental income can only be used to offset the PITIA of the subject property (in other words, it is limited to zero positive cash flow).
	non-subject property (new or newly placed in service less than a year)	 for a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property. for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).
 does not own a principal residence, and does not have a current 	subject property	rental income from the subject property cannot be used.
housing expense	non-subject property (new or newly placed in service less than a year)	rental income from the property cannot be used.



Freddie Mac Requirements

Refer to FHLMC Selling Guide, Chapter 5306 for complete rental income guidelines.

- The borrower MUST currently own a Primary Residence to use rental income to qualify, when purchasing a new rental property. In these instances, the net rental income can only offset the PITIA payment, UNLESS borrower has a minimum of one- year investment property management experience.
- If the borrower's current primary residence is being converted to a rental property, net rental income can only offset the full monthly payment of that primary residence, UNLESS borrower has a minimum of one- year investment property management experience.

Documenting Rental Income from Property Other Than the Subject Property

When the borrower owns property – other than the subject property – that is rented, the underwriter must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. See **Requirements for Documenting Rental Income**

Calculating Monthly Qualifying Rental Income (or Loss)

When Schedule E is used to calculate qualifying rental income, the underwriter must add back any listed depreciation, interest, taxes, or insurance expenses to the borrower's cash flow.

If the property was in service:

- For the entire tax year, the rental income must be averaged over 12-months. OR
- For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

When current lease agreements or monthly market rents reported on form 1007/1025 are used, the underwriter must calculate the rental income by multiplying the gross rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

Treatment of the Income (or Loss)

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) — and its treatment in the calculation of the borrower's total DTI ratio — varies depending on whether the borrower occupies the rental property as his or her principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the DTI ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income.
- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.



- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

*When borrower owns multiple rental properties, the total aggregate rental income (or loss) is added to income or liabilities as applicable.

Remember to refer to the applicable agency guidelines for complete rental income guidelines.

6.15 Verbal Verification of Employment

Independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau.

- Contact the employer verbally and confirm the borrower's current employment status on the Note date or within 10 business days prior to the Note date.
- If the employer confirms the borrower is currently on temporary leave, the underwriter must consider the borrower "employed." The conversation must be documented.

To comply with a VVOE (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, the Internet (i.e., 411.com, yellowpages.com), or by contacting the applicable licensing bureau.

Requirements

A verbal verification of employment must contain the following information:

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

Exceptions

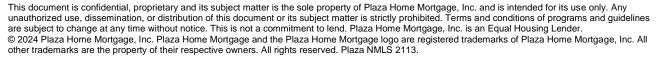
If the employer will not verbally verify employment, the underwriter can obtain a written verification (other than an additional paystub) confirming the borrower's current employment status within the same time frame as the VVOE requirements. The written documentation must include the name and title of the person who completed the verification for the employer.

If the employer uses a third-party employment verification vendor, the underwriter must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the VVOE requirements.

Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.

Negative Information

Negative comments received from an employer could be a reason to decline the application. However, prior to doing so, the underwriter must perform a detailed investigation of the comments, arrive at a precise reason to support the decision, and document the decision in writing.





6.16 Verification of Self-Employed Borrowers

If the borrower is self-employed in lieu of a verbal or written VOE, the underwriter must:

- Obtain verification of the existence of the borrower's business within 120 calendar days prior to the note date.
 - o From a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible. OR
 - By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance.

6.17 Third Party Vendor Verification

Plaza may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable as long as:

- The borrower provided proper authorization for the underwriter to use this verification method.
- The date of the completed verification is compliant with established guidelines.
- The underwriter has determined that the vendor has made provisions to comply with reasonable quality control requests from both Plaza and any subsequent mortgagee. **AND**
- Plaza understands it will be held accountable for the integrity of the information obtained from this source.
- If necessary, Plaza must supplement these verifications by obtaining any missing information from the borrower or his or her employer.

6.18 IRS Form 4506-C

Use of IRS Form 4506-C to Validate Borrower Income Documentation

Each borrower must (regardless of income source) complete and sign a separate IRS Form 4506-C. If the IRS Form 4506–C is executed prior to closing, the transcript(s) received from the IRS must be used to validate the income documentation provided by the borrower and used in the underwriting process.

Use of IRS Forms to Obtain Federal Income Tax Information

When federal income tax information is used to document income for qualifying purposes, the lender may obtain transcripts of the applicable federal income tax documents directly from the IRS (or designee) by using IRS Form 4506–C. However, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, the lender must obtain copies of Schedules B through F, Schedule K-1, Form 2106, or business returns. When approving a loan with income derived from business tax returns, a signed 4506-C for each business must be in the File— all 1120's, 1120S's and 1065's.

These schedules or forms are not required if:

- The income reflected on the applicable schedule transcripts is positive, AND
- The income supported by that schedule or form is not being used for qualifying.

Note: Borrowers with income from Puerto Rico must use Modelo SC 2907 (SolicitudDe Copia De Planilla, Relevo De Herencia Y De Donacion). Applicable forms or processes for eligible borrowers filing tax returns in other U.S. territories must be adhered to and obtained when required.

Completing and Submitting the IRS Authorization Form

IRS Form 4506-C can be used to obtain transcripts for up to 4 years or tax periods but only one tax form number can be requested per each IRS Form 4506-C. For example, it is necessary to complete two IRS Form 4506-Cs for a self-



employed borrower whose income documentation includes both 2 years of personal tax returns and 2 years of business tax returns. One IRS Form 4506-C will be required to obtain a transcript of the personal 1040 returns and another will be required for the business returns (Form 1065, Form 1120, Form 1120A, etc.).

Note: The borrower should not be required to sign an IRS authorization form before all items on the form, including the transcript being requested, the years/tax periods, and the date, have been completed.

- Enter the tax form number on line 6, and select box A for Full Return Transcript
 1040, 1065, 1120, etc.
- Box 8 on IRS Form 4506-C must be selected for W-2 Only
- Box 9 on IRS Form 4506-C must be selected for years requested on both

Note: Plaza Non-Conforming programs require a signed 4506-C and Full Tax Return Transcripts to be obtained for all years in which income was used in the underwriting decision.

Refer to the Tax Transcripts Guidelines for additional information.

6.19 Tax Returns (6/16/2023)

Personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included. Alternatively, applicable transcripts of federal income tax returns may be obtained.

"Most recent" tax return is defined as the last return scheduled to have been filed with the IRS.

Each tax return must be signed by the borrower unless the underwriter has obtained the following signature alternatives:

- A completed IRS Form 4506-C (signed by the borrower) for the year in question. AND
- IRS transcripts that validate the tax returns.

Information received by Plaza directly from the IRS is acceptable as long as it contains all of the information that would be included in the individual federal tax return.

Tax Returns Filed After the Loan Application Date

Tax returns filed after the application date may be acceptable when accompanied by the following:

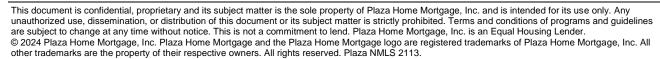
- Evidence of filing
- Proof of ability to pay the tax
- Copy of cancelled check to IRS for payment of tax

Refer to the Tax Transcripts Guidelines for additional information

Amended Tax Return FHLMC- NOT ALLOWED

- FHLMC does not accept Tax Returns that are:
- Filed on a Fiscal year basis
- Handwritten
- From a US Territory OR
- Amended Returns

FNMA- ALLOWED: Tax returns that are amended and filed by the borrower with the IRS are acceptable in the following circumstances:





- Tax returns filed prior to the Loan application date.
- Both the original filed return and the amended return are required. If the file was amended 60 days or less prior to the application, evidence of payment must also be provided.

Closely examine the original tax return and the amended tax return for consistency with previous filings to determine whether the use of the amended return is warranted. If the borrower requires the amended income for qualification, an exception must be submitted and approved for the use of the amended income. A copy of the original and amended tax returns must be submitted with the exception. When using an amended return after application, the underwriter must provide justification and commentary on the Transmittal Summary.

6.19.1 Allowable Age of Federal Tax Returns (2/9/2023)

For some types of income sources, Plaza requires underwriters to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The "most recent year's" tax return is defined as the last return scheduled to have been filed with the IRS.

FNMA:

Table 6-2		
If Today's Date is	Then the Most Recent Year's Tax Return would be	
February 15, 2024	2022	
April 19, 2024	2023	
December 15, 2024	2023	



The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

Table 6-3			
Application Date	Disbursement Date	Documentation Required	
October 15 ¹ , (current year minus 1) to	October 15 ¹ (current year minus 1) to	The most recent year's tax return is	
April 14 ² , current year	April 14 ² , current year	required. The use of a Tax Extension	
	April 15 ¹ , current year to June 30,	(IRS Form 4868) is not permitted. The previous year's tax return (the	
	current year	return due in April of the current year)	
	ourient your	is recommended, but not required.	
		The underwriter must ask the	
		borrower whether he or she has	
		completed and filed his or her return	
		with the IRS for the previous year. If	
		the answer is yes, the underwriter	
		must obtain copies of that return. If	
		the answer is no, the underwriter	
		must obtain copies of tax returns for	
		prior 2 years. Underwriters must only obtain	
		completed and signed IRS Form	
		4506-C for transcripts of tax returns	
		provided by the borrower to the	
		underwriter. (The underwriter is not	
		required to file IRS Form 4506-C for	
		tax returns not provided by the	
	July 4 guarant vacanta Octobor 4.42	borrower.)	
	July 1, current year to October 14 ² ,	The underwriter must obtain	
April 15 ¹ , current year to October 14 ² ,	current year April 15 ¹ , current year to December	the most recent year's tax return, OR all of the following:	
current year	31, current year	A copy of IRS Form 4868	
	, , , , , , , , , , , , , , , , , , , ,	(Application for Automatic	
		Extension of Time to File U.S.	
		Individual Income Tax Return) filed	
		with the IRS.	
		The underwriter must review the	
		total tax liability reported on IRS	
		Form 4868 and compare it with the	
		borrower's tax liability from the previous 2 years as a measure of	
		income source stability and	
		continuance. An estimated tax	
		liability that is inconsistent with	
		previous years may make it	
		necessary for the underwriter to	
	January 1, (current year plus 1) to		
		(IRS Form 4868) is not permitted.	
	January 1, (current year plus 1) to April 14 ² , (current year plus 1)	previous years may make it necessary for the underwriter to require the current returns in order to proceed. IRS Form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year, and returns for the prior 2 years. The most recent year's tax return is required. The use of a Tax Extension	



Note: For business tax returns, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

- ¹ Or the April/October filing dates for the year in question as published by the IRS.
- ² Or the day prior to the April/October filing dates for the year in question as published by the IRS.

FHLMC:

The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the Borrower and, if applicable, the Borrower's business. Sellers are encouraged to always confirm with the Borrower that the tax returns provided are the tax returns most recently filed with the IRS.

The Seller must determine the stable monthly income which may require additional documentation and analysis. Refer to **Section 5304.1(d)** for additional guidance about self-employed income when the tax returns for the most recent calendar year are not yet available.

At a minimum, the following date and documentation requirements must be met, based on the Application Received Date and the Note Date for the Mortgage:

For Mortgages with Note Dates on or after November 1, 2022

Application Received Date	Note Date	Age of tax return and other documentation requirements
Before:	On or after:	 Most recent federal income tax return(s) filed with the IRS The most recent tax return(s) must be no older than 2022
April 15, 2024	November 1, 2023	
	Before:	
	May 31, 2024	
On or after:	Before:	If the Borrower has not filed the 2023 tax return(s) with the IRS:
April 15, 2024	May 31, 2024	 The most recent tax returns must be no older than 2022 The Seller must obtain:
AII	On or after: May 31, 2024 Before:	 IRS confirmation verifying tax transcript(s) are not yet available for the tax return(s) (individual, and business, if applicable) from the 2023 tax year¹; and Evidence of completed IRS tax filing extension(s) for the 2023 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable)²;
	November 1, 2024	
All	On or after: November 1, 2024	 The most recent tax return(s) must be no older than 2023 Use of a tax filing extension for the 2023 tax year is not permitted.



- ¹ If the IRS extends the tax filing due date, the IRS confirmation is required for Mortgages with Application Received Dates on or after the IRS income tax filing due date, or May 31, 2023, whichever occurs first; and Note Dates on or after the last day of the month following the IRS income tax filing due date, or June 30, 2023, whichever occurs first.
- ² If the IRS extends the tax filing due date, evidence of the completed IRS tax filing extension is required for Mortgages with Application Received Dates on or after the IRS income tax filing due date and Note Dates on or after the last day of the month following the IRS income tax filing due date.

6.19.2 When Tax Returns Are Required

Plaza must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past 2 years for the following sources of income or employment of the borrower(s):

- Tip Income
- Trust Income
- Is employed by family members.
- Is employed by interested parties to the property sale or purchase.
- Receives rental income from an investment property (only 1 year of tax returns is required unless the borrower meets one or more of the other conditions in this list).
- Receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman.
- Receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099.
- Receives income that cannot otherwise be verified by an independent and knowledgeable source.
- Uses foreign income to qualify.
- Uses interest and dividend income to qualify. OR
- Receives income from sole proprietorships, limited liability companies, partnerships, corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest.

6.19.3 When Transcripts are Required

The 4506C form is required to be signed at the time of funding. IRS tax/W-2 transcripts are not required prior to funding except in the circumstances outlined below:

- Non-Conforming loan transactions
- Loan files where handwritten paystubs are used as verification of income
- Loan files where the borrower(s) is employed by a family member
- Loan files where there is a relationship between the parties:
 - o Borrower and Seller are related
 - Borrower/Seller/Loan Originator are related
 - Borrower is employed by the Third-Party Originator Company
- The loan is subject to pre-funding quality assurance review
- · At the underwriter's or QC discretion if needed to verify income calculations or address red flags

These transcripts must be reviewed by the underwriter to assess all information is consistent between the documentation provided and the IRS.

6.19.4 Comparing Transcripts to Income Documentation

Comparing the Tax Returns to the IRS transcripts

When tax returns are provided to document income, the tax returns must match the IRS transcripts.



If the IRS transcripts do not match the tax returns, an explanation from the borrower for the discrepancy along with a copy of the filed amended returns will be required.

Comparing the W-2s to the IRS transcripts

Transcripts verifying only W-2 income may be accepted for the following borrowers:

 Salaried/OT/Hourly borrowers who receive only W-2 wages, including borrowers who receive bonus or commission income less than 25% of their base income.

Comparing the Paystubs and Written VOEs to the IRS Transcripts

- When paystubs or written VOEs are the only income documentation provided in the file, they must be compared to the Wages, Salaries, and Tips section of the IRS transcripts to determine that the current income being used is not significantly different than the income on the IRS transcripts.
- If the income being used to qualify based on the paystubs or a written VOE is greater than 10% higher than the income documented on the IRS transcripts, the borrower will be required to provide an explanation for the discrepancy and additional income documentation to support the explanation should be provided.
- A greater than 10% increase may be due to the following:
 - o Bonus income
 - A raise
 - o A job change

6.20 1099- Income Reported on IRS Form 1099 (5/10/2023)

FNMA:

1099 INCOME

We treat borrowers who receive income via Form 1099 according to how it is reported on their federal income tax returns. If the borrower reports income as:

- other income on Form 1040, treat accordingly per requirements in Selling Guide Section B3-3.1, Employment and Other Sources of Income.
- under a business structure, treat as self-employment income and follow requirements in Selling Guide Section B3-3.2, Self-Employment Income.

FHLMC (Freddie Mac):

1099 INCOME

FHLMC states PLAZA may choose to treat the income as non-self-employed income or self-employed income. Please refer further to the FHLMC Selling Guide, Section 5303.2 under (d)- Employment & Income Characteristics for 1099 use options and documentation requirements.

Section 7 Assets and Down Payment

7.1 Bank Statement Requirements

Unless otherwise specified in the AUS feedback or the program guidelines, 2 consecutive monthly bank statements must be obtained to document the borrower's assets.

Bank statements must be dated within 45 days of application. Quarterly and annual bank statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available.



Obtain letter of explanation and source of funds from borrower for:

Accounts opened within last 90 days of application

Bank statements must clearly identify:

- Name and address of the depository or investment institution
- The borrower as the account holder
- Account number
- Time period covered by the statement.
- All deposits and withdrawal transactions for a depository account or all purchase and sale transactions for a financial portfolio account.
- · Ending account balance

If a supplemental statement 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 a bank letterhead signed by a bank representative. ATM receipts are not permitted.

Bank statements may be online account or portfolio statements obtained by the borrower, provided they are printed and the Internet Uniform Resource Locator (URL) address is included identifying the source of information as well as all of the other information listed above for standard bank statements or protected bank statements retrieved online. Statements downloaded directly from the Internet to a Word document or Excel spreadsheets are not acceptable.

Electronic verification of assets is permitted as long as it complies with the applicable agency standards. Plaza accepts electronic verification of assets (VOA) on Conventional, FHA, VA and USDA programs. Electronic verification of assets is not available for our non-conforming loan programs.

7.2 Stocks and Mutual Funds

When used for down payment or closing costs, the underwriter must determine the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining either:

- The most recent monthly or quarterly statement(s) from the depository or investment firm. OR
- A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.

Fannie Mae and Freddie Mac

- If the value of the asset is at least 20% more than the amount of funds needed for down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required.
- When used for reserves, 100% of the value of the assets may be considered, and liquidation is not required.

Note: Non-vested restricted stock is not an acceptable source of reserves.

7.3 Pooled Funds

Fannie Mae and Freddie Mac agencies have distinct and different definitions and requirements for pooled funds. Fannie Mae considers pooled funds as a community savings fund. Freddie Mac treats pooled funds as funds combined with those of a related person.



	Table 7-1
Fannie Mae	Funds from a community savings account or any other type of pooled savings may be used for the down payment if the borrower can document regular contributions to the fund.
	Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular borrower contributions.
	The borrower's obligation to continue making contributions to the fund must be considered as part of the borrower's debt when calculating the total DTI ratio.
Freddie Mac	A borrower may pool his funds with funds received from a related person. When a related person's funds are being pooled with the borrower's funds to make up the required 5% minimum cash down payment, the file must include an affidavit from the borrower attesting to the following:
	 The source of pooled funds The fact that the pooled funds are not borrowed. The relationship between contributing related person and the borrower.
	 That the related person has lived with the borrower for at least 12 months. AND Intends to continue residing with the Borrower in the new residence for the foreseeable future.

7.4 Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves.

The underwriter must verify the ownership of the accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction. In order to be considered as effective reserves, retirement accounts must be vested and allow withdrawals regardless of current employment status.

When funds from retirement accounts are used for reserves, Plaza does not require the funds to be withdrawn from the account(s). However, the underwriter must exercise caution when considering retirement accounts as effective reserves because these accounts often:

- Are in the form of stocks, bonds, or mutual funds.
- Feature significant penalties for early withdrawals.
- Allow limited access. OR
- Have vesting requirements.

Fannie Mae and Freddie Mac

If the retirement assets are in the form of stocks, bonds, or mutual funds, 100% of the value of the assets may be considered for reserves. Terms of withdrawal must be verified and severance from employment cannot be required to access funds.

7.5 Trust Funds

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 following:

- Conditions under which the borrower has access to the funds. AND
- The effect the withdrawal of funds from the account will have on trust income must be documented if trust income is used to qualify the borrower.

Verifications of trusts and distribution of assets must be one of the following:



- A typed copy of the trust agreement (not handwritten) if the laws of the property state allow an underwriter to require a copy of the trust agreement. **OR**
- A certification of trust, if the laws of the property state prohibit an underwriter from requiring a copy of the trust agreement.

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 (trust company, financial institution, CPA, lawyer).
- Identifies the borrower as the beneficiary.
- Shows that the borrower has access to all or certain specific amount of the funds.
- Shows that the trust has assets to disburse funds to the borrower (i.e., copy of trust statements).
- If the assets are required for closing, proof of receipt is required.

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. This includes funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

7.6 Gift Funds

For FNMA or FHLMC loans, please follow investor guidelines.

A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below.

Gifts are not allowed on an investment property.

FNMA Acceptable Gift Donors

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

A gift can be provided by:

- A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship. **OR**
- A fiancé, fiancée, or domestic partner, OR
- Former relative, Godparent, or Relative of domestic partner

FHLMC Acceptable Gift Donors

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

A gift can be provided by a: Related Person, which is a person that is any of the following:

- The Borrower's spouse, child or dependent
- An individual related to the Borrower by blood, marriage or adoption
- A guardian of the Borrower
- A person for whom the Borrower is a guardian
- The Borrower's fiancée or fiancé
- The Borrower's domestic partner



An unrelated individual with close, family-like ties to the Borrower

NOTE- Estates and trusts of Related Persons as eligible donors of gift funds and gifts of equity
In addition to expanding the Glossary definition of "Related Person," as described above, FHLMC has provided further flexibility by adding a trust established by a Related Person and an estate of a Related Person as eligible donors of gift funds and gifts of equity.

The gift letter must be signed by the trustee or the authorized representative of the estate and indicate the gift funds or gift of equity were provided by a trust established by a Related Person or an estate of a Related Person and include the mailing address and telephone number of the trustee or authorized representative, as applicable. (See FHLMC guide section 5501.3 for more details).

Minimum Borrower Contribution Requirements

Certain transactions that contain gift funds are subject to borrower contribution requirements.

- Loans with LTV, CLTV or HCLTV ratios of 80% or less
 - For 1- to 4-unit principal residence or second home a minimum borrower contribution from borrower's own funds is not required.
- Loans with LTV, CLTV, or HCLTV ratios greater than 80%
 - For 1-unit principal residence, a minimum borrower contribution from borrower's own funds is not required.
 - For 2-4-unit principal residence or second home, the borrower must contribute at least 5% from his or her own funds. After this minimum is met, gifts may be used to supplement down payment, closing costs, and reserves.

Note: If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

Freddie Mac Minimum Borrower Contributions

If the mortgage is secured by a second home, and a gift from a related person is used for a mortgage with a LTV ratio greater than 80%, Freddie Mac permits the gift as a source of borrower funds only if the occupying Borrower has made a down payment of at least 5% from occupying borrower funds.

Documentation Requirements (11/1/2023)

Gifts from a donor must be supported by a Gift Letter, signed by the donor:

- Specifying the dollar amount of the gift.
- Specifying the date funds were transferred.
- Including donor's statement that no repayment is expected.
- Indicating donor's name, address, telephone number, and relationship to borrower.

FNMA: When the gift is sourced by a trust established by an acceptable donor or an estate of an acceptable donor, the gift letter must be signed by the donor and list the name of the trust or the estate account.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be
 the same as the borrower's address. Examples include, but are not limited to a copy of a driver's license, a
 bill, or a bank statement.



Gifts or grants provided by an entity as described above must be documented with either:

- A copy of the letter awarding the gift or grant to the borrower. **OR**
- A copy of the legal agreement that specifies the terms and conditions of the gift or grant.

The document must include language indicating that repayment of the gift or grant is not expected, and how the funds will be transferred to the borrower, lender, or closing agent.

The transfer of gifts or grants must be documented with a copy of the donor's canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual mortgage file.

Verifying Donor Funds

The underwriter must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- A copy of the donor's check and the borrower's deposit slip.
- A copy of the donor's withdrawal slip and the borrower's deposit slip.
- A copy of the donor's check to the closing agent. OR
- A settlement statement showing receipt of the donor's check.

When gift funds are not transferred prior to settlement, there must be documentation that the donor gave the closing agent gift funds in the form of certified check, cashier's check, or other official check.

Gift of Equity

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity.

The following documents must be retained in the loan file:

- A signed gift letter AND
- The Settlement Statement listing the gift of equity.

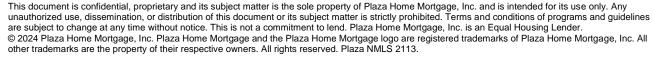
If the requirements listed in this topic are met, the gift of equity is not subject to the interested party contribution requirements.

7.7 Verification of Deposit Requirements

A Verification of Deposit (VOD) issued by the depository institution may be obtained in addition to bank statements. Regardless of acquiring a VOD, Plaza requires at a minimum a 1-month bank statement to support all accounts with written VODs.

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 date the account was opened.
- The account balance as of the date of the VOD
- The average balance for the previous 2 months

Written verifications of deposit are not acceptable as standalone documentation to substantiate the borrower's assets regardless of the automated underwriting requirements.

7.8 Inconsistent or Large Deposits

Fannie Mae

Refinance Transactions

Documentation or explanation for large deposits is not required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.

Purchase Transactions

When bank statements (typically covering the most recent 2 months) are used, the underwriter must obtain a borrower-written explanation and documentation of source of funds for large deposits. A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. When a large deposit includes sourced (documented) and unsourced (undocumented) assets, only the unsourced (undocumented) portion must be used in calculating whether the deposit meets the 50% definition. If the underwriter uses the reduced amount, (net the unsourced large deposit) then the reduced asset amount must be used for underwriting purposes. This applies to DU approved loans as well as manually underwritten loans. The underwriter must ensure the DU Finding reflect the reduced asset amount, otherwise the loan is subject to the documentation requirements for any large deposits that exceeds 50% of total monthly qualifying income.

Freddie Mac

Written explanation and documentation is required when any deposit is equal to or greater than 50% of the total qualifying income. Freddie Mac is limiting the requirement to instances when the Mortgage is a purchase transaction and the deposit is needed to meet the requirements for Borrower funds and/or reserves. Sellers are reminded that they remain responsible for ensuring that any liabilities resulting from any borrowed funds are considered when qualifying the Borrower and that all Borrower Funds and reserves used in the evaluation of the Mortgage are from eligible sources.

If the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the mortgage file (e.g. tax refund amounts appearing on the tax returns in the file), the underwriter is not required to obtain additional documentation.

When using a direct account verification (i.e., VVOD), the file must include documentation of the source of funds when an account is opened within 90 days of verification and/or when the current balance in an account is significantly greater than the average balance.

If a portion of the Borrower's funds were to be saved by the Borrower between the date of the loan application and the date of the loan closing, then the mortgage file documents must show that funds were accumulated and on deposit prior to closing.

7.9 Required Minimum Reserves

For 2-4-unit primary home transactions, cash reserves equal to 6 months PITIA for the subject property are required.

For all 1-4-unit investment property transactions, cash reserves equal to 6 months PITIA for the subject property are required. The reserve requirement may not be waived.



Cash-out loans with a DTI exceeding 45% require cash reserves equal to 6 months PITIA for the subject property.

Cash Reserves Calculation Table

Principal Residence

For a mortgage loan secured by the borrower's principal residence, the minimum reserve requirements are determined as follows:

Fannie Mae:

- For loan case files submitted to DU, reserves per DU Findings Reports.
- For manually underwritten loans, per the Fannie Mae Eligibility Matrix.

Freddie Mac:

For loan case files submitted to LPA and Manually Underwritten loans, additional reserve requirements must equal or exceed requirements in Table 7-3 below.

Table 7-2		
Subject Property	Required Reserves	
Primary Residence – 1-unit	None	
Primary Residence 2-4-units	6 months for the subject property	
Second Home	2 months for the subject property	
Investment Property	6 months for the subject property	

Second Home or Investment Property

For a mortgage loan secured by a second home or an investment property, the minimum reserve requirements are determined as follows:

Fannie Mae:

- For loan case files submitted to DU, reserves per DU Findings Report
- For manually underwritten loans, per the Fannie Mae Eligibility Matrix.

If the borrower owns other financed properties, the following additional reserves must be calculated and documented. The required reserves for a financed property are based on the qualifying payment amount of the financed property.

- 2% of the aggregate UPB if the borrower has one to four financed properties.
- 4% of the aggregate UPB if the borrower has five to six financed properties, or
- 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).

The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- the subject property,
- the borrower's principal residence,
- properties that are sold or pending sale, and
- accounts that will be paid by closing (or omitted in DU on the online loan application).

Note: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application.

Simultaneous Second Home or Investment Property Transactions



If processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

Freddie Mac:

The following reserves (PITIA) must be calculated and documented in addition to the amount of reserves required to be verified on the Feedback Certificate:

Table 7-3			
Second home or Investment Property			
Number of financed properties	Additional Reserves		
When the borrowers are obligated on one to six financed properties, including the subject property and the Borrower's Primary Residence	 2 months of the monthly payment amount on each additional second home and/or 1-4-unit Investment Property: In which the borrower has an ownership interest or on which the borrower is obligated, AND That is financed. 		
When the borrowers are obligated on seven to ten financed properties, including the subject property and the Borrower's Primary Residence	 8 months of the monthly payment amount on each additional second home and/or 1-4-unit Investment Property: In which the borrower has an ownership interest or on which the borrower is obligated, AND That is financed. Note: Manually Underwritten Mortgages are not permitted 		

Determining Required Reserves

Minimum required reserves vary depending on:

- The transaction
- The occupancy status and amortization type of the subject property
- The number of units in the subject property
- The number of other financed properties the borrower currently owns. AND
- The status of the borrower's current principal residence (pending sale or converting to second home or investment property).

Manually Underwritten Loans

The minimum required reserves are documented in the Fannie Mae **Eligibility Matrix**. However, when a borrower has multiple financed properties and is financing (or refinancing) a second home or investment property, the underwriter must apply the applicable additional reserve requirements for the other financed second home and investment property transactions.

Underwriters must subtract funds to close from available assets when considering sufficient assets for reserves.

DU Loan Case Files

DU will determine the reserve requirements based on the overall risk assessment of the loan and the minimum reserve requirement that may be required for the transaction. DU will calculate the reserve requirement for the subject property. However, when a borrower has multiple financed properties and is financing (or refinancing) a second home or investment property, DU is not able to determine the exact number of financed properties the borrower owns. As a result, the



underwriter must manually apply the applicable additional reserve requirements for the other financed second home and investment property transactions. DU also is not able to determine if the borrower has not sold or has converted his or her principal residence to a second home or investment property. The underwriter must manually apply the applicable additional reserve requirements for both the subject property and the borrower's current principal residence.

7.10 Unacceptable Sources of Reserves

The following cannot be counted as part of the borrower's reserves:

- Funds that have not been vested.
- Funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death.
- Stock held in an unlisted corporation.
- Stock options and non-vested restricted stock.
- · Personal unsecured loans.
- Interested party contributions (IPCs) AND
- Cash proceeds from a cash-out refinance transaction on the subject property.

7.11 Total Contributions by Interested Parties Limits

The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value are:

Table 7-4		
Property Type	LTV/ CLTV	Maximum Contribution
Primary Residence	> 90%	3%
	> 75 ≤ 90%	6%
	≤ 75%	9%
Second Home	> 90%	3%
	> 75 ≤ 90%	6%
	≤ 75%	9%
Investment Property	All LTV/TLTV/CLTVs	2%

Note: Seller contributions for HOA dues must be paid directly to the Association.

7.12 Types of Interested Party Contributions

Undisclosed IPCs

Mortgages with undisclosed IPCs are not eligible. Examples of these types of contributions include, but are not limited to, moving expenses, payment of various fees on the borrower's behalf, "silent" second mortgages held by the property seller, and other contributions that are given to the borrower outside of closing and are not disclosed on the Settlement Statement.

Down Payment Assistance Programs

Funds that are donated to third parties which are then applied toward some or all of the borrower's closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs).

IPC funds that flow through a DAP may be used for allowable closing costs and prepaid items in compliance with IPC limits.



Financing Concessions

Financing concessions that are paid on the borrower's behalf are subject to IPC limits. Financing concessions are:

- Financial contributions from interested parties that provide a benefit to the borrower in the financing transaction.
- Payments or credits related to acquiring the property. AND
- Payments or credits for financing terms, including prepaid items.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to IPC limits. Financing concessions that exceed the limits listed below are considered sales concessions and are subject to IPC limits.

Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:

- Interest charges (limited to no more than 30 days of interest)
- Real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment).
- Hazard insurance premiums (limited to no more than 14 months)
- HOA assessments covering any period after the settlement date (limited to no more than 12 months).
- Initial and/or renewal mortgage insurance premium AND
- Escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.

Sales Concessions

Sales concessions are IPCs that take the form of non-realty items as well as financing concessions that exceed the set limits. The value of the sales concessions must be deducted from the sales price when calculating the LTV/CLTV/HCLTV for underwriting and eligibility purposes.

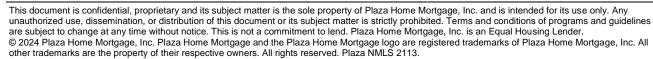
Excessive Marketing and Auction Fees

Total real estate commissions and marketing fee payouts (in cash or in kind) that exceed 8% of the sales price are considered excessive and must be deducted from the sales price for underwriting purposes. Total commissions/marketing fees include, but are not limited to: Marketing fees, finder's fees, referral fees, consulting fees, and assignment of sales fees. It is not permissible to omit these fees from the Settlement Statement.

Auction fees are limited to a maximum of 4% of the sales price. For transactions that include commissions, marketing fees and auction fees, the aggregate may exceed 8%; but it may never exceed 12%, including the 4% maximum for auction fees.

Sales concessions include, but are not limited to the following:

- Any financial obligations of the borrower (e.g., revolving debt and installment debt) being paid by the seller.
- Assignment of rent payments
- Automobiles
- Contributions in excess of actual costs
- Decorator and upgrade allowances (if funds are placed in an escrow account)
- Furniture
- HOA dues covering any period after the settlement date beyond 12 months.
- Moving costs
- · Other items considered to be "giveaways."





• Reimbursement to borrower for payment of short sale fees (short sale facilitation fees, buyer discount fees, short sale buyer fees).

Interest Rate Buydown

See applicable Agency guidelines for eligibility and restrictions.

Payment Abatements

Payment abatements are considered to be a financing concession since it is an incentive provided to the borrower by an interested party. The interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance, and other assessments (PITIA). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.

Loans with payment abatements of any type are not eligible regardless of whether or not they are disclosed on the HUD-1 Settlement Statement. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity such as, a nonprofit down payment assistance program.

Note: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an IPC.

7.13 Minimum Down Payment Requirements

Table 7-5				
≤ 80%	1-4-unit principal residence or Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.		
> 80%	1-unit principal residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.		
	2-4-unit principal residence or second home	The borrower must make a 5% minimum borrower contribution (or 3% for HomeReady) from his or her own funds.		
Gift funds are not allowed on investment property transactions.				

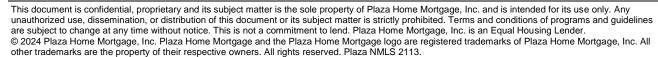
7.14 Sale of Personal Property

Proceeds from the sale of personal property assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

Documentation Requirements

The lender must document the following:

- The borrower's ownership of the asset
- The value of the asset, as determined by an independent and reputable source. FNMA only: If the proceeds represent more than 50% of the total monthly income used in qualifying, the company must use the lesser of the estimated value as described above, or the actual sales price.





- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

Depending on the significance of the funds in question, the lender may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.

7.15 1031 Tax Deferred Exchanges

Section 1031 of the Internal Revenue Code allows investors to defer payment of state and federal capital gains taxes by exchanging investment property rather than selling investment property. This code section provides a strategy for the deferral of capital gains taxes, which in turn provides a property owner with substantially more proceeds to reinvest in a replacement property.

A tax deferred exchange, therefore, is the process of rolling over funds from one investment property into another, without having access to those funds. In a taxable sale, the property owner is taxed on any gain realized by the sale of the property. In an exchange; the tax is deferred. This section of the IRS code does not apply to primary residences.

The following restrictions apply to second home and investment property purchases only:

- Reverse exchanges are not allowed because the borrower is not in title to the property at the time of closing.
- The product type must allow for second homes and investment properties.
- No subordinate financing will be allowed.
- The loan closing must be handled by a qualified intermediary. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker, or broker. This Exchange Agreement requires the qualified intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired."
- Copies of all closing documents and purchase agreement on the relinquished property must be obtained. Required documentation includes:
 - 1031 Exchange Agreement
 - Settlement Statement AND
 - Title Transfer
- Both purchase agreements (relinquished and replacement properties) must contain appropriate language to identify the 1031 exchange. An example of satisfactory language is:
 - Phase I (Sale): "Buyer is aware that Seller is to perform a 1031 Tax Deferred Exchange. Seller requests Buyer's cooperation in such an exchange and agrees to hold Buyer harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract by the Seller.
 - "Phase II (Buy): "Seller is aware that Buyer is to perform a 1031 Tax Deferred Exchange. Buyer requests Seller's cooperation in such an exchange and agrees to hold Seller harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract by the Buyer.
- Seller Accommodations:
 - If a borrower is purchasing a Seller's 1031 investment property to occupy as a primary residence, the borrower is accommodating the seller. The transaction is not considered a 1031 Tax Deferred Exchange and is, therefore, eligible for financing.
 - o 1031 Tax Exchange down payment requirements:
 - Equity from the exchange may be used for all or part of the down payment.
- Reserve Requirements:



- 2- 4-unit primary residences: Cash reserves must equal 6months PITIA when rental income is used for qualifying.
- For all 1-4-unit investment property transactions, cash reserves must equal 6 months PITIA.

The reserve requirements may not be waived.

7.16 Business Use of Funds (09/22/2023)

Assets held in a business bank account are an acceptable source of funds for the down payment, closing costs and financial reserves subject to the following conditions:

- The file must contain verification of the borrower's business and bank account ownership.
- The account must be verified in accordance with standard verification of deposits and assets guidelines.
- If self-employment income is being used to qualify, and the borrower is using business assets for down payment, closing costs, and or reserves, a cash flow analysis must be performed to ensure the withdrawal of the business funds will not have a negative impact on the business. Additional documentation may be required to support the cash flow analysis.

Refer to Plaza's specific program guideline for possible restrictions or additional requirements that may apply to individual loan programs.

Section 8 Property Types and Project Standards

8.1 Acreage

There are no restrictions on lot size for a property to be eligible for financing on conforming products and loans that do not require mortgage insurance. All of the following guidelines must be met:

- Must be residential/suburban in nature.
- Must have market acceptance.
- Must be compared with like properties of similar acreage. AND
- Any income produced must be incidental and noncommercial in nature.

If the above requirements cannot be met the acreage is limited to a maximum of 10 acres.

8.2 Hawaii Lava Zones

Hawaii Lava Zone Restrictions

Properties located in:

- Lava Zone 1 –Are ineligible for all loan programs.
- Lava Zone 2 Are only eligible for specific Freddie Mac programs. Refer to the specific program guidelines for details.
- Lava Zones 3-9 are eligible for all loan programs.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

See Geographic State Restrictions in the specific program guidelines for details.



8.3 Manufactured Housing

Refer to Plaza's Manufactured Housing Guidelines for specific guidance.

8.4 Factory-Built Housing

A "manufactured home" is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

Factory-built housing not built on a permanent chassis—such as modular, prefabricated, panelized, or sectional housing—is not considered manufactured housing. Factory-built housing must assume the characteristics of site-built housing, must be legally classified as real property, and must conform to all local building codes in the jurisdiction in which they are permanently located.

Factory-Built Appraiser Commentary

Each appraisal of factory-built housing must include an appraiser commentary on the following:

- On local demand, marketability of the property, supply of factory-built homes in the area, and its appeal in the marketplace. The marketing time must not exceed six months.
- On sufficiency of the unit's living area, interior room size, storage, adequacy of roof pitch, overhangs, and exterior finish.
- The manufacturer's name, the model number, the year of manufacture, and the serial numbers.

Factory-Built Comparable Sales Requirements

The appraiser must clearly identify the type of factory-built housing to be appraised since it is an important criterion in defining the appropriate market area and for selecting comparable properties. The process of selecting comparable sales for factory-built housing is the same generally as that for comparable sales of site-built housing and should be used to support marketability. Compare modular homes to modular, panelized to panelized, and so on. Use a minimum of two similar factory-built comparable sales.

8.5 Multiple Parcels (11/30/2021)

Requirements when the security property consists of more than 1 parcel of real estate:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is on a non-buildable lot and the file must contain documentation to support the lot is not buildable.
- Each parcel must have the same basic zoning (for example: residential, agricultural).
- Only 1 parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable).
- The mortgage must be a valid first lien on each parcel.

8.6 Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the



best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

8.7 Mixed-Use Property

Properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, a doctor's office, a small neighborhood grocery, or specialty store are eligible as collateral.

The following special eligibility criteria must be met:

- The property must be a 1-unit dwelling that the borrower occupies as a principal residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

8.8 Leasehold Estates

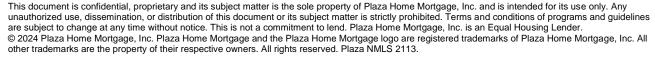
Mortgages that are secured by leasehold estates in areas in which this type of mortgage loan has received market acceptance are eligible. Mortgages secured by manufactured homes located on leasehold estates are not eligible. The following requirements also apply:

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land
- The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub lessor. In the event the mortgage is secured by a sublease of a leasehold estate, documentation must provide that a default under the leasehold estate will not result in the termination of the sublease.
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage.

Lease Requirements - Fannie Mae

The following requirements for leases associated with leasehold estate mortgage loans must be met:

- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times by the lessee either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any HOA.
- The lease must provide that the borrower will pay taxes, insurance, and HOA dues related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.





- The lease must be serviced by either the lender that delivers the mortgage to Fannie Mae or the servicer it designates to service the mortgage.
- The lease must provide lenders with:
 - O The right to receive a minimum of 30 days' notice of any default by the borrower. AND
 - The option to either cure the default or take over the borrower's rights under the lease.

Lease Requirements - Freddie Mac

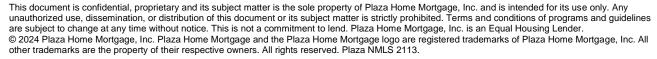
The lease (or sublease) must:

- 1. Permit mortgaging of the leasehold (or subleasehold) estate
- Permit assignments of the leasehold (or subleasehold) estate, including any improvements on the leasehold
 estate, without the lessor's consent; however, if the leasehold is in a restricted community including, but not
 limited to, communities restricted to residents of certain ages or income, the lease must require that the
 assignee/lessee satisfy those restrictions.

The lease may permit the lessor to review and consent to or deny a proposed assignee/lessee based on whether the proposed assignee/lessee satisfies the creditworthiness requirements of Freddie Mac or other secondary market investors. The lessor will have 5 business days after receipt of the application to deny the assignee/lessee.

The lease may prohibit the lessee from leasing or subleasing or renting the leasehold estate; however, in the event of foreclosure or deed-in-lieu of foreclosure, any such provision must cease to be effective for the mortgagee and subsequent purchasers of the property.

- 3. Provide for release of an assigning lessee (or sublessee).
- 4. Permit the leasehold mortgage security to be insured under a hazard insurance policy.
- 5. Provide for payment of hazard insurance proceeds to the leasehold mortgagee or insurance trustee.
- 6. Contain the following provisions governing increases in the basic rent and amounts due under the lease:
 - Basic Rent
 - Permit an increase in the basic rent during the term of the mortgage and within 5 years after the maturity date of the mortgage only if the increase is a sum certain amount at a specified date or time interval. During this period, basic rent increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to an annual maximum limitation.
 - Taxes, Insurance, and Utilities
 - Increases in amounts due under the lease for taxes, insurance, and utilities on the leasehold estate, if collected and paid by the lessor, and taxes, insurance, and utilities related to the common areas and facilities in the ground lease community are permitted if:
 - The increase is determined in the same manner as basic rent, including a maximum limitation. OR
 - The increase is based on the verifiable increase in such items imposed by third parties. AND
 - The lease provides for the lessee to obtain documentation of the amount paid to third parties for taxes, insurance, and utilities.
 - Use Fees and Operating Expenses
 - Increases for use fees and operating expenses for the common areas, facilities, and services in the ground lease community may not exceed the cost of living index.
- 7. Provide that in order for a notice of lessee's default to be valid, the lessor must have sent written notice of the lessee's default to the leasehold mortgagee.
- 8. Provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's (or sublessee, if applicable) account within the time permitted to lessee plus reasonable additional time.
- 9. Provide for no termination for nonmonetary default as long as no default in rent exists, except for a court-ordered termination. In the event of a court-ordered termination, the lease must provide for the lease to continue in effect and any improvements to remain on the leasehold estate as long as there is no default in rent, until the completion of the foreclosure or deed-in-lieu of foreclosure or other loss mitigation action with the borrower.
- 10. In addition, the lease must provide for a new lease of the same priority to be given to the leasehold mortgagee, or its designee, in the event the lease terminates because of a court ordered termination. The lessor must provide a





title endorsement ensuring that the new lease is of the same priority and that the lien on the leasehold estate is a first lien.

For purposes of this paragraph, "rent" includes basic rent, other amounts due under the ground lease for such items as taxes, insurance, and utilities on the leasehold estate, if collected and paid by the lessor, and any other use fees and operating expenses to the extent such charges are necessary for the maintenance and preservation of the common areas and community facilities.

- 11. Provide that in the event of the bankruptcy of the lessor or the lessee, the lessee must notify the leasehold mortgagee and take, in a timely manner, all action necessary to assume the unexpired term and any renewal options of the lease.
- 12. Provide that in case of partial taking, the lessee (or sublessee, if applicable) will rebuild and restore the improvements on the Mortgaged Premises, unless the leasehold mortgagee consents to the distribution of the proceeds instead. (The proceeds must be applied first towards reduction of the leasehold mortgage debt.)
- 13. Provide for protection of the mortgagee's interests in the event of a property condemnation.
- 14. Provide for the leasehold mortgagee's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure.
- 15. Provide for the leasehold mortgagee's right to exercise any renewal options that may exist.
- 16. Provide that the leasehold mortgagee must approve:
 - Any partition, subdivision, or modification of the ground lease community and the leasehold estate.
 - Any surrender, abandonment or termination of the leasehold estate or the ground lease community.
 - The termination or cancellation of the lease or any action that has the effect of terminating the lease. AND
 - Any amendments to the lease that relate to the provisions in this section or otherwise affect the rights of the leasehold mortgagee.
- 17. Provide that there shall be no merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests.

The Underwriter must complete Freddie Mac Ground Lease Analysis Form 461.

Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land.

If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised.

If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold.

Both the lease and the option to purchase must be assignable.

8.9 Properties with Solar Panels

If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title).

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available

and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

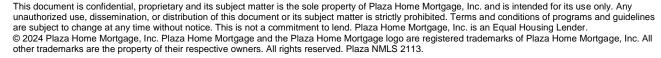


Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with *Energy Efficiency Improvements* in **B4-1.3-05**, **Improvements Section of the Appraisal Report** (08/05/2020).

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

If the solar panels are...... Then the lender must Financed and collateralized -- the Obtain and review the credit report, title solar panels are report, appraisal, and/or UCC fixture filing*, collateral for the separate debt related promissory note and related security used to purchase the panels, but agreement that reflect the terms of the they are a fixture to the real secured loan: estate Include the debt obligation in the DTI ratio because a UCC fixture filing* has calculation. been filed for the panels in the Provided that the panels cannot be real estate records. repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing* is of record in the land records. **Note:** If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated. Financed and collateralized -- the Obtain and review documentation sufficient to solar panels are confirm the terms of the secured loan (such reported to be collateral for as copies of the credit report, title report, any separate (non-mortgage) debt UCC financing statement, related promissory used to purchase the panels, but do not appear on the title report. related security agreement); Include the debt obligation in the DTI ratio calculation; Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt: Not include the panels in the LTV ratio calculation; and





	 Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.
--	--

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply.

Table 8-1 Requirements for properties with solar panels that are not owned by the Borrower

The solar panels may not be included in the appraised value of the property.

The property must maintain access to an alternate source of electric power that meets community standards.

The lease payment must be included in the DTI ratio calculation unless the lease is structured to:

- Provide delivery of a specific amount of energy at a fixed payment during a given period, AND
- Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio.

The lease or a power purchase agreement must indicate that:

- Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); **AND**
- The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure the panels are attached to; **AND**
- In the event of foreclosure, the lender or assignee has the discretion to:
 - o Terminate the lease/agreement and require the third-party owner to remove the equipment;
 - o Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

Any exceptions to the coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with **Fannie Mae's Title Exceptions and Impediments** requirements.

8.10 Properties in Special Assessment or Community Facilities Districts

The table below provides conditional considerations when evaluating properties in special assessment or community facilities districts.

Table 8-2			
If	Then		
The property being appraised is located in a	Underwriters must require appraisers to report on any special		
special assessment district	assessments that affect the property.		
The special assessment district is	Underwriters must ensure that appraisers:		
experiencing financial difficulty and that	Reflect the difficulty in the analysis.		
	Note the difficulty and impact in the appraisal report.		



difficulty has an effect on the value or marketability of the subject property	 Reflect market reaction to the potential liabilities that may arise within a financially troubled special assessment districts. Consider the following within the district: Current and expired listings of properties for sale. Pending contract sales. AND Recent closed sales.
If financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there are no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value	The mortgage secured by such property will not be eligible for delivery to Fannie Mae until an active market develops enabling the appraiser to demonstrate the value and marketability of the subject property.

8.11 Age and Resale Deed Restrictions

Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease (other than a community land trust ground lease addressed in this topic), agreement, or other instrument executed by or on behalf of the owner of the land.

Resale restrictions may limit the use of all or part of the land to occupancy by persons or families of low income or moderate income or on the basis of age (senior communities must comply with applicable law) or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers.

The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions.

The resale restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified, or terminate in accordance with their terms, such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure.

However, if a community land trust uses a restriction, easement, covenant, or condition in any deed, mortgage, agreement, or other instrument executed by or on behalf of the owner of the land instead of a ground lease to create the resale restriction, this section will apply.

The underwriter must review the terms and conditions of the affordable housing program, including any documents that describe the resale restrictions.

Compliance with Community Seconds Policy

Resale restrictions may be found in the terms and conditions of the second mortgage or deed of trust (referred to as a Community Seconds mortgage), which Fannie Mae does not purchase.

In other cases, the resale restrictions are found in a covenant or provision of an agreement that is recorded against the land, and no Community Seconds mortgage exists.

When the resale restrictions are documented by a second mortgage or deed of trust, the underwriter must ensure that the second mortgage or deed of trust complies with **Fannie Mae's Community Seconds** guidelines and **Community Seconds Checklist** The second mortgage or deed of trust must be subordinate to the first mortgage that Fannie Mae purchases.

If the resale restrictions are included in a separate covenant or agreement instead of a second mortgage or deed of trust, the resale restrictions must comply, if applicable, with Fannie Mae's requirements related to shared appreciation in property value. The right of the subsidy provider to shared appreciation must be clearly subordinate to the lien of the first mortgage that Plaza originates.



Any provisions addressing balloon payments, the interest rate, and negative amortization must be documented in the Community Seconds mortgage, and not in a covenant or agreement.

Allowable Resale Restrictions

Plaza will allow mortgages that are subject to one or more of the following types of resale restrictions (although some restrictions are likely to occur only in combination with others):

- Income limits
- Age limits (senior communities must comply with applicable laws)
- Purchasers must be employed by the subsidy provider.
- Principal residence requirements
- First-time home buyer requirements as designated by the subsidy provider.
- Properties that are group homes or that are principally used to serve disabled residents. AND
- Resale price limits

Duration of Resale Restrictions

Plaza will purchase mortgages secured by properties subject to resale restrictions:

- When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period).
- Upon the recordation of a deed-in-lieu of foreclosure. OR
- When the resale restrictions survive foreclosure.
- There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.
- If the resale restrictions survive foreclosure, the lender represents, and warrants.
- That the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.
- If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from future sale(s) or transfer(s) of the property after foreclosure or acceptance of a deed-in-lieu of foreclosure.
- If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.

8.11.1 Deed Restrictions Loan and Borrower Eligibility

Eligible Subsidy Providers for Affordability-Related Deed Restrictions

Eligible subsidy providers, or sponsors, of resale restrictions must be

- Nonprofit organizations;
- Churches;
- Employers;
- Universities:
- Municipalities (including state, county, or local housing agencies); or
- Entities that are otherwise administrating government sponsored, federal, state, or local subsidy programs.

The subsidy provider must have established procedures for screening and processing applicants.

Eligibility Based on Type of Deed Restriction



	Affordable	Age-Related		
Transaction Types	Purchase and Refinance			
Products	Loans must be fixed-rate or adjustable-rate mortgages with an initial fixed period of five years or more.			
	Must meet applicable criteria of the deed restriction.			
Borrowers	Note: Age-related deed restrictions generally apply to the unit occupant and frequently required only one occupant to be aged 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of investment property.			
	(It is permissible for both affordable and age-related requirements to apply to a single loan.)			
Occupancy Types	Principal residence only All occupancy types			
Properties	One- and two-unit properties, PUDs, condos, and co-op.	One-and two-unit properties, PUDs, condos, and co-ops (second homes must be one-unit properties)		
roperiies	Mortgages secured by manufactured homes and three-and four-unit properties are not eligible. Mortgages secured by manufactured homes and three-and four-unit properties are not eligible.			

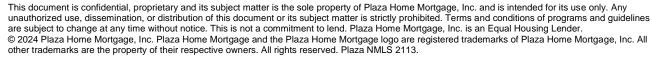
8.11.2 Deed Restrictions Underwriting and Collateral Considerations

Calculation of LTV Ratios

- When resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure, the sales price is typically not a reliable indicator of market value for the property.
- Accordingly, for these types of mortgages, Fannie Mae permits lenders the option to use the appraised value
 of the property without resale restrictions, rather than the lesser of sales price or appraised value with the
 restrictions in place, when calculating the LTV ratio.
- Fannie Mae is permitting this calculation based on the market value without resale restrictions because it is indicative of the actual value of the property in the event of a foreclosure or acceptance of a deed-in-lieu of foreclosure (disregarding factors that may affect value after origination and prior to foreclosure).
- When using this alternative method of calculating the LTV ratio, the mortgage must be manually underwritten and is not eligible for submission through DU.
- When resale restrictions survive foreclosure or a deed-in-lieu of foreclosure and the resale restrictions limit the sales price of the property, the lender must use the lesser of the sales price or appraised value of the property with resale restrictions when calculating the LTV ratio, which is the standard method of calculation.
- Fannie Mae is requiring the standard calculation on the lower value due to the presence of resale restrictions, which would limit the property's sales price in the event of foreclosure or acceptance of a deed-in-lieu of foreclosure.
- When the standard method for calculating the LTV ratio is applied, these mortgages may be underwritten with DU.

Resale Restriction Appraisal Requirements

• In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.





- The underwriter must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that he or she must include the following statement in the appraisal report:
 - "This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."
- In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions.

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

8.11.3 Legal Considerations

Resale Restriction Title and Insurance Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

Default Remedies

The presence of resale restrictions must not impair Plaza's legal rights to cure a default under the mortgage terms, to foreclose on the mortgage, or to otherwise protect Plaza's interests under the mortgage.

- The subsidy provider also may have rights to remedy a borrower default.
- Rights to insurance settlements and condemnation proceeds
- Plaza must have first claim to insurance settlements and condemnation proceeds.
- Default or refinancing of resale restriction loans.

The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure.

The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.

The subsidy provider must exercise its right of first refusal or option to purchase within 90 days (if FNMA) or 120 days (if FHLMC) of receiving notification of the borrower default or the property foreclosure.

• The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash-out amount in order to protect the subsidy invested in the property. Underwriters must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions.

Mortgage Insurance Approval of Resale Restriction

If a mortgage loan is subject to resale restrictions that survive foreclosure or deed-in-lieu of foreclosure and mortgage insurance is required, the underwriter must first contact its mortgage insurance provider and obtain confirmation that the mortgage insurer is willing, on a program basis, to insure these mortgages under the lender's master primary policy.

Special Feature Codes

Lenders must report SFC 630 when delivering mortgages secured by properties with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period) or the recordation of a deed-in-lieu



of foreclosure, and if the lender uses the optional calculation to compute the LTV ratio based on the appraised value of the property without resale restriction. This LTV ratio, calculated using the appraised value of the property without resale restrictions, must also be reported as part of the delivery data.

Lenders must report SFC 631 when delivering mortgages secured by properties with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure. No special feature code is required when delivering mortgage loans secured by properties with resale restrictions that terminate automatically upon foreclosure, or the expiration of any applicable redemption period, or the recordation of a deed-in-lieu of foreclosure, if the lender uses the standard calculation to compute the LTV ratio based on the lower of sales price or the current appraised value with resale restrictions.

8.12 Construction-To-Permanent Financing

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim financing that the borrower has obtained to fund the construction of a new residence.

A construction-to-permanent mortgage loan may be closed as:

• A purchase transaction, or A limited cash-out refinance transaction

The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance as shown in the table below.

Transaction Type Lot Ownership Requirement		LTV Ratio Calculation		
Purchase	The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the lesser of: The purchase price (sum of the cost of construction and the sales price of the lot), or The "as completed" appraised value of the property (the lot and improvements).		
Limited Cash-Out Refinance	The borrower is the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to- permanent financing by the "as completed" appraised value of the property (the lot and improvements)		

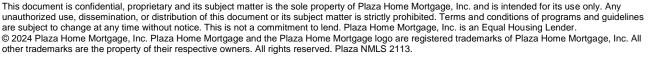
8.12.1 Construction-To-Permanent Treated as a Purchase Transaction

When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

The borrower must use his or her own funds to make the minimum borrower contribution unless:

- the LTV, CLTV, or HCLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.

8.12.2 Construction-To-Permanent Treated as a Limited Cash-Out Refinance





When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a "true" limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply.

8.13 Ineligible Property Types

Plaza will not purchase a loan for a property with any of the following ineligible property characteristics:

- Assisted living projects
- Properties with condition rating of C5/C6
- Properties with construction rating of Q6
- Builder model leaseback
- Houseboats
- Investment securities
- Mobile Home
- Multi-family dwelling containing more than 4 units.
- Properties not suitable for year-round occupancy.
- Properties with resale restrictions that do not meet agency eligibility.
- Property without full utilities installed to meet all local health and safety standards.
- Property used for commercial or industrial purposes.
- Residential stick-built property with a permanently affixed manufactured home also located on the property.
- Tax-sheltered syndicate
- Timeshare unit
- Unimproved land
- Working farm, ranch, or orchard if income producing.
- Unique properties (including those properties that may have marketability issues because of their uniqueness)
- Refer to **Project Standards** more information on project eligibility.

8.14 Condo/Co-Op Project Eligibility

Refer to Plaza's **Project Standards** for specific requirements.

Section 9 Mortgage Insurance

Refer to Plaza's Mortgage Insurance Policy for additional information.

Section 10 Appraisal Requirements

10.1 Plaza's Exclusionary List

Plaza's Exclusionary List must be reviewed to ensure that the appraiser who completed the appraisal is not excluded by Plaza. Plaza will have no obligation to fund any loan where the appraiser is on Plaza's Exclusionary List.



Plaza's Exclusionary List includes Ineligible Appraiser's and Appraisal Companies.

Any appraisers or appraisal companies identified on the list are not eligible to perform appraisal assignments, either directly or indirectly, on properties that secure loans to be funded or purchased by Plaza.

The appraiser's and supervisory appraiser's names, if applicable, and company for every loan needs to be checked against this list prior to ordering or accepting an appraisal report.

10.2 Appraiser Misconduct

This policy applies when an appraiser is being considered, referred, or recommended for Plaza' Exclusionary list. Appraisers may only be referred for placement on an exclusionary by failing to meet minimum quality control or service level standards, failing a random QC audit, or being referred by a Plaza underwriter or Regional Manager, investor or consumer, with documentation submitted showing evidence of concern in areas related to:

- State Licensing
- USPAP
- Substandard performance
- Poor Service Unprofessional, Unethical, Misrepresentation or Illegal Conduct

Corporate Operations, Corporate Underwriting and/or the Collateral Risk Manager may place the appraiser on the Exclusionary list if it's determined that the appraiser provided unacceptable products or service as stated above. An appraiser may not be placed on the Exclusionary list unless such action is based upon substantiated complaints or confirmed information and appropriately documented.

10.3 Appraisal Interaction

To ensure and maintain independence between third parties and appraisers during the valuation process, associates and third-party affiliates of a mortgage originator must not directly or indirectly coerce, influence, or otherwise encourage and appraiser to misstate or misrepresent the value of the consumer's principal dwelling. In all cases, loan originators / loan origination staff are prohibited from direct contact with the appraiser.

Wholesale Transactions

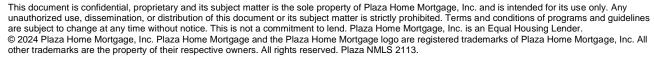
- All Conventional, FHA and Rural Development (USDA) appraisals must be ordered through the Appraisal Management Service (AMC) platform provided by Plaza. This includes all supplemental appraisal reports.
- Appraiser selection is automatic and uses a proprietary vendor management selection process. Clients are direct to the assigned AMC through Plaza's website.
- Rural Housing appraisal reports must be completed by an FHA-approved appraiser and are required to meet all FHA minimum standard guidelines.
- VA Appraisal reports are ordered through WebLGY located in the Veteran's Information Portal.

Correspondent Transactions

All correspondent appraisals must be ordered in compliance with the AIR

Appraisal Panel

- Each Plaza approved AMC maintains an active list of appraisers authorized to perform appraisal work on behalf of Plaza.
- Removing appraisers from an AMC panel requires Plaza's Compliance or Appraisal Department approval.





Prior Services Notification

- Per USPAP, prior to accepting an assignment, or if discovered at any time during an assignment, an
 appraiser must disclose to the client any prior services provided on the subject property within the last 3
 years, as an appraiser or in any other capacity.
- Plaza authorized AMCs will notify Plaza of the prior services and Plaza will determine if there appears to be a conflict of interest or the perception of a conflict of interest in assigning the order to the appraiser.

Refund of Appraisal Fee

If the borrower's credit card has been charged and the AMC receives a request for a refund, the AMC will
notify Plaza Regional Loan Center for authorization to refund.

Value Appeals

 Appeals and reconsideration requests may be initiated by any interested party. Appeal requests must be submitted through Plaza Appraisal Platform and not by individual email or fax.

Formal Complaints

 Any AMC, appraiser, borrower, or broker complaints regarding a possible violation of AIR must be reported to Plaza's Compliance Department by phone at 866-260-2529 or email at compliance@plazahomemortgage.com.

10.4 Appraiser Requirements

The appraiser is the individual who inspects the subject property, inspects exteriors of comparable properties, analyzes the data, and prepares and signs the appraisal report. Professional assistance may be provided to the appraiser by a trainee or other unlicensed employee of the appraiser in areas such as market research and or data validation.

Plaza is responsible for selecting its appraisers and for the qualifications and quality of work provided by its selected appraisers.

Plaza and its appraisers are required to consider all factors that may affect a property's market value, to render an objective, and unbiased opinion.

Plaza is required to order and receive the appraiser report for a transaction. Appraisers may not be selected by the buyer, seller, real estate agents, or other party.

The appraiser must be:

- Licensed or certified in the state of the subject property as of the effective date of the appraisal, with properly
 documented evidence.
- Be professionally knowledgeable regarding the property type and location.
- Be able to report property data accurately and consistently.
- Have appropriate access to pertinent data sources for the area of the subject property.
- Actively working in the appraisal field at the time of engagement.
- Able to accurately consider condo and co-op projects including rendering opinions on whether such a project is eligible or ineligible.
- Free of any outside influences in accordance with AIR.
- Absent from Fannie Mae's Appraiser Quality Monitoring (AQM) list.



It is permissible to employ an AMC qualify and select appraisers, in accordance with appropriate procedures to ensure the above requirements are met.

10.5 Appraisal Evaluation

In developing an opinion on the value of a property, the appraiser must adhere to the requirements below. It is Plaza's responsibility to review the appraisal for these requirements and to:

- Ensure that all factors that may affect the value of the property are considered in an objective and unbiased manner.
- Refrain from using unsupported personal opinions or assumptions in factoring the value of the property.
- Ensure that the valuation opinion has no basis on race, color, gender, handicap, national origin, or family status regarding either the current or prospective owners or occupants of the subject property.
- Ensure that any unfavorable conditions (economic and/or environmental) are noted and explain how such conditions were factored into the valuation calculation.
- Ensure the subject property provides adequate collateral for the mortgage.

Refer to the Appraisal Job Aid for additional guidance.

10.6 Reviewing the Appraisal (09/28/2023)

It is necessary and required to conduct a mandatory underwriting analysis of the appraisal report including:

- Current contract (sale or purchase money transactions)
- Current offering or listing for sale (both sale and purchase money transactions)
- Comparable sales (both sale and purchase money transactions)
- Current ownership of property
- Sale or transfer history of property and comparables (when reasonably available)
- Note: For all appraisals with an agency SSR score > 4 OR a 999 score due to lack of available data, a
 second review of the appraisal must be completed by a Team Leader or higher. Verification of the second
 review must be documented in the loan comments.

10.7 Age Requirements for Original Appraisals

Table 10-1					
Conform	ing Conventional	Non-Conforming		Government & USDA	
Existing	New Construction	Existing	New Construction	Existing	New Construction
120 Days ¹	120 Days ¹	120 Days ¹	120 Days ¹	120 Days	120 Days

Notes:

¹ At the Note Date, if the appraisal date is greater than the stated number of days for the property type, a new appraisal is required.

For loans underwritten by Plaza, an appraisal update may be permitted at the discretion of the underwriter for up to 12 months.

Certain product types and/or MI companies may have more restrictive appraisal age guidelines. The more restrictive guidelines always apply.



If the report is more than 4 months old at the date of note and mortgage, then an update must be performed, including exterior inspection, and review of market conditions.

Note: For the purpose of document aging (including appraisals), in Escrow States, Plaza will use the "date of signing" and not the date on the face of the Note as the "Note Date".

10.8 Land-Use Regulations

The appraisal report must include statements regarding specific land use zoning and what such zoning allows. The subject property must be described as legal conforming, legal nonconforming (grandfathered) or illegal use, or that there is no zoning.

Current improvements must clearly represent the highest and best use of the site, and this must be indicated in the appraisal report in order to be acceptable for a mortgage loan.

Plaza will lend only for properties wherein improvements constitute a legally permissible use of land.

10.9 Flood Zones

A property located in a Special Flood Hazard Area (SFHA) that is ineligible under the National Flood Insurance Program is unacceptable.

The appraiser must indicate on the appraisal report whether or not the property is located in a SFHA as identified by the Federal Emergency Management Agency (FEMA). The appraiser must also indicate the specific FEMA flood zone, map number, and map date.

The Appraiser should indicate whether or not the property is located in a SFHA as identified by the FEMA. If the property is located in zones A, AE, AH, AO, A1-30, A99, V, VE, or V1-30 flood insurance is required.

The flood zone reported on the appraisal must match the Flood Certification from Core Logic Flood and the flood insurance policy. The appraisal report should include the map or community-panel number and the specific flood zone.

10.10 Property Condition (11/6/2023)

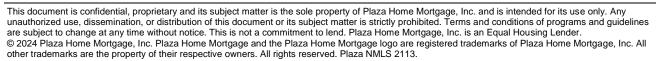
Identifying Property Condition

The condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements.

Condition ratings C1, C2, C3 and C4 are eligible for delivery in "as is" condition. Properties with the initial condition rating of C5 or C6 indicate one or more deficiencies that impact the safety, soundness, or structural integrity of the property and therefore the appraisal must be completed subject to completion of the deficient item(s).

10.11 Quality of Construction Rating

Identifying Quality of Construction





The same approach used in identifying the condition of the property is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction.

Properties with a quality of construction rating of Q6 are only eligible provided any items in relation to the quality of construction that impact the safety, soundness, or structural integrity of the property are repaired prior to the delivery of the loan to improve the rating to Q5 or higher. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity below for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to ensure that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to ensure the necessary alterations or repairs have been completed prior to delivery of the loan.

In addition to the *appraiser* reporting property deficiencies, the underwriter is also responsible for analyzing the reported property data and viewing the appraisal photos for any signs of necessary repairs or ineligible characteristics. Regardless of the report being completed "As Is" or "Subject To", the underwriter may need to require additional inspections, repairs, and/or commentary based on their review.

10.12 Properties in Established Subdivisions, Condos, or PUD

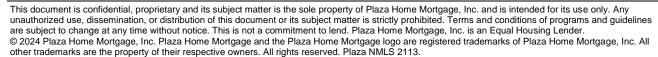
When the subject property is located in an established subdivision, condominium project, or PUD, comparables should be selected from within the same area for the most accurate valuation. Any comparables used outside that area must be explained.

10.13 Properties in New Subdivisions, Condos, or PUDs

When the subject property is located in a new or recently converted subdivision, condominium project, or PUD, one other property within the general market area should be considered as well as at least one from the subject subdivision or project. The third may be from either area, provided it is a sound comparison.

In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, two pending sales in the subject project or subdivision may be used in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparables from projects or subdivisions outside of the subject property's project or subdivision.

10.14 Unpermitted Room Additions, Garage or Porch Conversions





If the subject property includes an unpermitted addition or conversion, the appraiser must verify that the addition or conversion was completed in a workmanlike manner and that there is not any impairment to the soundness, structural integrity, or livability of the property.

- The room addition must conform to the rest of the property.
- The addition or conversion cannot cause the subject property to be in violation of zoning.
- The appraisal must indicate that the zoning is legal and may not include any comments that the zoning of the property has been jeopardized.
- The square footage of the addition may be included in the appraised value.

The following scenario is not eligible under any circumstance:

• Room additions are not eligible on 2-4-unit properties. All properties must be single family properties and the addition may not result in the property converting to a multi-unit property.

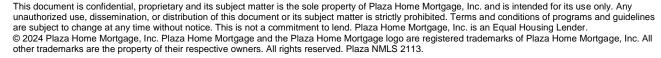
10.15 Guest Houses/Accessory (In-Law) Apartments (11/30/2021)

An accessory unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units.

Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.

Manufactured homes that meet investor guidelines are allowed as accessory units. FNMA does require that the manufactured home be a multi-wide unit to be acceptable. For FHLMC follow standard manufactured home guidelines as per FHLMC Selling Guide Section 5703.2.

Type of Property	Acceptability		
A property that includes an additional unit or accessory apartment (sometimes referred to as a mother-in-law, mother-daughter, or granny unit)	 Yes, provided that: The property is defined as a one-unit property. There is only one accessory unit on the property; multiple accessory units are not permitted. The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use. The borrower qualifies for the mortgage without considering any rental income from the accessory unit. (*Refer to FHLMC guidelines for the use of rental income from an ADU) 		
A property that includes an illegal additional unit or accessory apartment (sometimes referred to as a mother-in-law, mother-daughter, or granny unit)	 Yes, provided that: The illegal use conforms to the subject neighborhood and to the market. The property is appraised based upon its current use. The borrower qualifies for the mortgage without considering any rental income from the illegal unit. The appraisal must report that the improvements represent an illegal use. The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use. The appraisal requirements related to zoning for an ADU are met. 		





	 The lender ensures that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.
A 2-4-unit property that includes an "illegal" or even legal accessory	No
apartment.	

10.16 Properties with Minimal Outbuildings

Appraisers and underwriters should give special consideration to the market value of properties with outbuildings.

Type of Outbuilding	Acceptability
Minimal outbuildings such as small barns or stables of relatively insignificant value in relation to the total appraised value of the subject property	The property is acceptable provided the outbuildings are typical of other residential properties in the subject area.
A small barn or stable	Consider whether the outbuilding is typical of properties for which an active, viable residential market exists, and include similar improvements in comparable sales.
An atypical minimal outbuilding	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm animals	The presence of the outbuildings may indicate that the property is agricultural in nature. The underwriter must determine whether the improvements are residential or agricultural, regardless of whether the appraiser assigns value to the outbuildings.

10.17 Land-Use Regulations

The appraisal report must include statements regarding specific land use zoning and what such zoning allows. The subject property must be described as legal conforming, legal nonconforming (grandfathered) or illegal use, or that there is no zoning.

Current improvements must clearly represent the highest and best use of the site, and this must be indicated in the appraisal report in order to be acceptable for a mortgage loan.

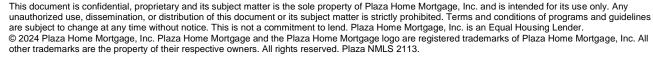
Plaza will lend only for properties wherein improvements constitute a legally permissible use of land.

10.18 Off-Site Improvements

Off-site improvements are features outside the subject property such as streets, alleys, sidewalks, streetlights, curbs, and gutters. The subject property should front to a public street, which is maintained and which meets community standards and acceptance criteria.

For a property that fronts to an atypical street, the effect of that location must be considered and reported in the valuation and marketability of the property.

If the property is located on a privately maintained or community-owned street, a maintenance agreement should be obtained noting the responsible parties for maintenance and repairs, default remedies, and effective term of the agreement.





The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

10.19 Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations;
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

Note: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

10.20 Site Utilities

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access offsite private facilities and there is an adequate, legally binding agreement for access and maintenance.

10.21 Water Wells Property Requirements

Minimum water wells property requirements for Existing Construction:

- Existing wells must deliver water flow of three to five gallons per minute
- No exposure to environmental contamination
- Continuing supply of safe and potable water
- Domestic hot water
- Water quality must meet requirements of local jurisdiction or the EPA if no local standard

10.22 Unique Properties

Special consideration should be given to a property which is special or unique within its neighborhood or which does not conform to the improvement throughout the neighborhood.

Appraisers and underwriters must carefully consider, on a case-by-case basis, whether sufficient data and comparables are available to support a reliable market value opinion.

10.23 Replacement Appraisal

A replacement appraisal is only allowed to be ordered when:



- There is reasonable basis to support a conclusion that the initial appraisal contains flaws or defects that are material in nature.
- The first appraisal was deemed deficient, in which case the underwriter must use the value of the second appraisal in determining the LTV/TLTV. The underwriter is responsible for determining if an appraisal is defective. However, if the replacement appraisal is also deemed deficient, both appraisals must be handled according to the Appraisal Escalation process.

Note: Desk Review Appraisals are not eligible or considered an additional appraisal service.

10.24 Re-Use of an Appraisal Report for a Subsequent Transaction:

The re-use of a prior appraisal report for a subsequent transaction when an appraisal update is obtained is allowed when the requirements below are met:

- The subject loan must be the Rate/Term refinance of a loan that sold to either Fannie Mae or Freddie Mac (or placed in a Fannie Mae or Freddie Mac pool) directly by Plaza;
- The borrower and Broker/Correspondent must be the same on the original and subsequent transaction;
- The new loan must be a Fannie Mae or Freddie Mac eligible Rate/Term refinance and cannot include the payoff of secondary financing;
- The appraisal effective date must be within 12 months of the Note Date of the subsequent refinance;
- An appraisal update on Form 442/1004D is obtained. and:
 - The value of the property must not have declined;
 - The property must not have undergone any significant renovation; and
 - The 442/1004D must be dated within 120 days of the Note Date of the new loan
- Borrowers from the original transaction cannot change except in the event of a divorce or legal separation.

Transferred appraisals accepted by Plaza on the original transaction are not eligible for re-use.

10.25 Second Appraisal

A second appraisal is only allowed to be ordered when a second appraisal is a requirement of the loan program. If a second appraisal or field review is required by the loan program, the second appraisal or field review ensures that the appraisal is an accurate representation of value.

If the opinion of value is different than the original appraisal, the lowest of the original appraisal, field review, or second appraisal, or sales price (for purchases) is used to calculate the LTV ratios.

If a second appraisal report is not acceptable, the underwriter may require the appraiser to provide additional information regarding how the value was determined and/or require the appraiser to correct material errors within the appraisal report.

10.26 Transferred Appraisal (11/01/2023)

Plaza will accept transferred/assigned appraisals from the original transferring lender if it meets certain specific procedural criteria.

Conventional

Plaza will accept transferred/assigned appraisals from the original transferring lender if it meets all of the following criteria:

- Plaza must receive the original PDF of the appraisal and the invoice from the originating lender.
- The invoice must confirm if the balance is paid or still outstanding
- The appraisal must be completed by one of Plaza's approved AMC's.



- If the AMC is not on Plaza's approved AMC list, the appraisal may be accepted if the following requirements are met:
 - All other requirements for a transferred appraisal are met
 - Plaza Level 5 Underwriter has reviewed and signed off on the appraisal
- The appraisal must be accompanied by Transfer Letter and Acknowledgement from the transferring lender.
 - The letter must be on the originating lenders letter head
 - Must be signed by an officer or manager of the originating lender. (i.e. Vice President, Assistant Vice President)
 - Transferring lender must certify and warrant that they have adopted and complied with AIR requirements and the appraisal was ordered in compliance.
- Must receive the most recent version of the successful SSR and the applicable CU or LCA report from the originating lender.
- The appraiser cannot be on Plaza's exclusionary list.
- The underwriter completes the appropriate due-diligence to ensure the overall opinion of value is supported and the appraisal conforms to Plaza guidelines.
 - A letter of explanation is obtained from the broker on the reason(s) for the transfer.
- Any minor corrections (i.e., address corrections) are subject to the AMC and appraiser's discretion. The
 corrections must be received in an original PDF format along with the corresponding successful SSR. If the
 required corrections cannot be made accordingly a new appraisal report will have to be ordered. If the appraiser
 and/or AMC is unable or unwilling to make corrections, the transferred appraisal must be rejected and a new
 appraisal ordered through Plaza's ordering process in compliance with AIR.
- The lender/client named on the transferred appraisal may not be the same as the Broker submitting the loan, unless there is documentation to show that the Broker also regularly does business as a correspondent lender and has appropriate AIR policies in place.

FHA

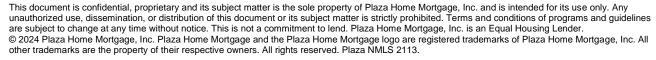
Plaza will accept FHA appraisals from other lenders that meet the following criteria:

- Plaza must receive the original PDF and XML of the appraisal and the invoice from the original lender
- The invoice must confirm if the balance is paid or still outstanding
- The appraisal must include a Certificate of Compliance (COC) certifying the appraisal was ordered and completed
 in accordance with Appraiser Independence Requirements (AIR). The COC is normally issued by the AMC and
 accompanies the appraisal.
- Plaza must receive the last successful SSR from the original lender.
- FHA Connection must identify the appraiser who actually conducted the appraisal that is used for Insuring.
- Plaza to confirm that the appraiser was on FHA active roster as of the effective date of the appraisal.
- The underwriter completes the appropriate due-diligence to ensure the overall opinion of value is supported and the appraisal conforms to Plaza guidelines.
 - A letter of explanation is obtained from the client on the reason(s) for the transfer.
 - FHA Connection is checked for a Mortgage Credit Reject
- The effective date of the appraisal must be after the FHA case number assignment date.
- For transactions that are brokered to Plaza the appraisal cannot be in the broker's name. This does not apply to Principal Authorized Agent Relationships or Correspondent loans sold to Plaza from FHA approved Lenders.
- Plaza may not request the appraiser to re-address the transferred appraisal. If Plaza finds deficiencies in the appraisal, a new appraisal must be ordered.
- Both appraisals are to be retained in the loan file and case binder.
 - The file must be documented regarding why a second appraisal was ordered and retain the explanation in the case binder.
 - o The appraiser cannot be on Plaza's exclusionary list.

Plaza Appraisal Transfer/Assignment to another Lender

If an appraisal ordered by Plaza needs to be transferred to another lender, the Plaza regional office is responsible for processing the request.

o Assignment and Certification





- Plaza regional office to complete the Appraisal Transfer Letter FM-277
- The appraisal and Assignment and Lender Acknowledgement Letter must be sent to the new lender from the Plaza's regional office or designated AMC that provided the original appraisal report.
- Plaza does not permit the Lender/Client name to be removed or replaced on the report.
- Plaza does not allow for appraisals to be transferred/assigned directly to wholesale brokers or borrowers.

10.27 Appraisal Waiver/Automated Collateral Evaluation (ACE) (09/22/2023)

Fannie Mae

For certain loan casefiles, DU offers an appraisal waiver—an option to waive the appraisal requirement. For loan casefiles that are not eligible for an appraisal waiver, DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

An appraisal waiver is a DU recommendation that results in the waiver of both the property inspection and appraisal report. The stated value of the subject property provided at time of application and submitted to Desktop Underwriter resulting in the appraisal waiver is the determined value of the subject property. The value may not arbitrarily be increased and submitted to DU. An appraisal waiver may not be used if an appraisal is obtained for the transaction.

- To improve the chance of getting an appraisal waiver finding through DU, it is recommended that the full zip code is entered into DU. Include the last 4 digits when available. 12345-1234
- Complete guidelines for entering the subject property address, including pre- and post-directional abbreviations and street suffix abbreviations, are provided in the Guidelines for Entering the Subject Property Address document on www.eFannieMae.com.
- The appraisal waiver may not be more than 4 months old on the date of the note and the mortgage.
- Special Feature Code 801 must be entered in order to exercise the appraisal waiver.
- Upgrade Requirements When DU issues an appraisal waiver but a Fannie Mae a full 1004 appraisal is required when:
 - Plaza is aware that the subject property does not conform to the neighborhood.
 - There are apparent adverse physical deficiencies or environmental conditions.
 - New or proposed construction. Escrows for postponed improvements are not permitted.
 - Home inspection report or other information in the file indicates the presence of adverse condition and/or marketability factors.
 - Purchase transactions when the transaction is the result of the sale of an REO property.
 - The last transaction on the property being purchased was a foreclosure.
 - Property is located in a federally declared Disaster Area in the previous 120 days. Refer to Geographic Restrictions regarding Federal Disaster Areas.
 - o If the loan requires Mortgage Insurance (MI) and the MI Company has a requirement for a property inspection. (Refer to specific program guidelines for details).
 - Texas Cash Out transactions require a full appraisal, regardless of AUS findings.
 - Texas 50(a)(6) and Texas A4 loans require a full appraisal, regardless of the AUS finding.
 - o The applicable state law requires a full appraisal.

Freddie Mac

For certain Loan Product Advisor Mortgages, the automated collateral evaluation (ACE) provides Plaza with the option to accept an appraisal waiver and originate the mortgage without an appraisal. Loan Product Advisor may also return an ACE +PDR appraisal option, which is an appraisal waiver with a requirement for a property data report. When the appraisal waiver option is accepted, Freddie Mac will accept the estimated value submitted by the Underwriter for the purpose of underwriting the mortgage.

The mortgage must be submitted to Loan Product Advisor. Upon evaluation by Loan Product Advisor the last Feedback Certificate must indicate that the mortgage is eligible for collateral representation and warranty relief with an appraisal



^{*}Refer to the Fannie Mae selling guide for complete requirements.

waiver. The final submission of the mortgage to the selling system must indicate the collateral representation and warranty relief status is "Y or "Yes"

The following Mortgages are not eligible for an appraisal waiver:

- Mortgages for which an appraisal has been obtained in connection with the Mortgage
- Mortgages secured by one of the following:
 - A Manufactured Home, or
 - A leasehold estate
- Mortgages secured by Mortgaged Premises subject to resale restrictions
- Construction Conversion and Renovation Mortgages
- Texas Cash Out transactions require a full appraisal, regardless of the AUS findings.
- Texas 50(a)(6) and Texas A4 loans require a full appraisal, regardless of the AUS findings
- Mortgages with Freddie Mac Settlement Dates more than 120 days from the Note Date

In addition, Underwriters may not accept the appraisal waiver offer if any of the following apply:

- Plaza is required by law or regulation to obtain an appraisal
- The Underwriter is aware of conditions they believe warrants an appraisal being obtained. Examples include, but are not limited to:
 - The property is located in an area recently impacted by a disaster
 - A contaminated site or hazardous substance exists affecting the property or the neighborhood in which the property is located

Note: The appraisal waiver offer is valid for 120 days. If the offer is more than 120 days old on the Note Date, a resubmission to Loan Product Advisor is required to determine ongoing appraisal waiver eligibility.

*Refer to the Freddie Mac selling guide for complete requirements.

10.28 Appraisal Red Flags

Areas of concern may include:

- · Indications of excessive value
- Sudden appreciation of property value when owned less than 12 months
- Site value not appropriate to area
- Excessive adjustments based on comparables

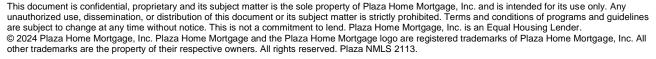
10.29 Appraisal Dispute Process

The underwriting analysis must verify that any changes made to the original appraisal report were made only by the original appraiser.

10.30 Addressing Appraisal Deficiencies

In cases where there is concern that an appraisal is deficient, there are three methods for addressing the deficiency.

- Contact the AMC to address and resolve deficiency concerns
- Conduct or obtain a desk review or field review of the original appraisal
- Order a new appraisal when:
 - Attempts to cure have been unsuccessful AND
 - An Underwriting Manager has reviewed and approved the order.





Plaza reserves the right to:

- Question the appraiser's findings or request additional information from the appraiser if deemed necessary.
- Choose to accept, or not, appraisals completed by appraisers that do not meet its guidelines and standards.
 Upon notification by Plaza the AMC or Correspondent must take steps to ensure that no appraisal or other
 third-party service is delivered to Plaza if prepared by an appraiser or provider that Plaza has deemed
 unacceptable for delivery or purchase.
- Take disciplinary action (up to and including legal action) against any appraiser or other third-party vendor with the appropriate governing entities.
- Request new or additional appraisals at Plaza's sole discretion of risk.

10.31 Age Requirements for Original Appraisals

Table 10-2						
Conform	Conforming Conventional Non-Conforming Government & USDA					
Existing	New Construction	Existing	New Construction	Existing	New Construction	
120 Days ¹	120 Days ¹	120 Days ¹	120 Days ¹	120 Days	120 Days	

Notes:

Certain product types and/or MI companies may have more restrictive appraisal age guidelines. The more restrictive guidelines always apply.

If the report is more than 4 months old at the date of note and mortgage, then an update must be performed, including exterior inspection, and review of market conditions.

10.32 Changes/Corrections to the Appraisal

If the original appraisal exceeds specific age requirements, then updates must be obtained. Updates may be reported on Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report or on Form 1004 Uniform Residential Appraisal Report, or in a letter.

Section 11 Natural Disaster

Refer to Plaza's Natural Disaster Policy for information on properties located in a disaster area.

Section 12 New York CEMA Guidelines

The state of New York charges a mortgage recording tax whenever a new mortgage or refinance is recorded. To reduce tax liabilities to borrowers, refinances can be transacted by consolidating, extending, and modifying the existing loan. Using this method, the borrower pays the recording tax only on any "new money" added to the original loan.

In order to accomplish this, instead of the existing liens being paid off, they are effectively assigned and transferred to the new lender who consolidates, extends, and modifies the term and structure of the existing loan(s) into new documents. CEMA is the acronym for Consolidation, Extension, and Modification Agreement for New York State CEMA activity could encompass multiple loans concurrently, as well as historically. It could be rolling a first and second lien together into a CEMA; it could also be a string of repeat refinances, such that the CEMA is actually modifying numerous liens. This string will continue until such time as there is a new transaction that does not utilize the CEMA process.



¹ At the Note Date, if the appraisal date is greater than the stated number of days for the property type, a new appraisal is required. For loans underwritten by Plaza, an appraisal update may be permitted at the discretion of the underwriter for up to 12 months.

In addition to refinance transactions, the state of New York allows purchases to be structured as CEMA transactions; however, Plaza does not allow purchase transaction CEMA loans.

Refer to Plaza's NY CEMA Guidelines for specific guidance.

Section 13 Texas Home Equity Section 50(a)(6)

Refer to Plaza's Texas Home Equity Section 50(a)(6) for specific guidance.

Section 14 Fraud Guidance

Plaza, its investors and Sellers can experience substantial losses if either fraud or misrepresentation occurs on a loan. Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. Plaza has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

Inconsistencies in the loan file are often a tip-off that the file contains misrepresentations. The presence of one or more red flags in a file does not necessarily mean that there was fraudulent intent. However, several red flags in a file may signal a fraudulent transaction. Due diligence in investigating all requests, claims and supporting documentation to uncover false or misleading information must be done during the loan process. The following must be reviewed:

- FraudGUARD Alerts to identify any issues with borrower or identity issues, undisclosed properties and subject
 property alerts must be reviewed. Any parties involved in the origination or underwriting of the loan must be
 checked if they appear on Plaza's, Fannie Mae or Freddie Mac's exclusionary lists, FHFA Suspended
 Counterpart Program List or on the FHA LDP/GSA list.
- Tax Transcripts If the tax transcripts are not required by Plaza Policy prior to funding, tax transcripts can be obtained if needed to verify income calculations or to address red flags.
- VVOE A verbal verification of employment is performed by Plaza prior to closing to validate employment as
 documented in the loan file.
- Credit inquiries and fraud alerts must always be investigated.
- MERS On the day of funding, MERS must be checked to ensure there are no undisclosed mortgages that have recorded since the date of the application.

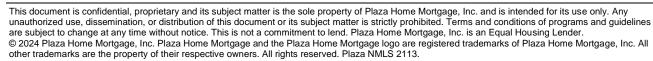
All Plaza associates, including management, are required to escalate possible suspicious activity to the BSA Security Officer using the Preliminary Report of Suspicious Activity form. Plaza also has an Ethics Hotline number posted on MyPlaza under the HR menu. Plaza's Ethics Hotline is a confidential way, for internal associates, to report possible corporate misconduct, unethical behavior and/or illegal financial activity.

Refer to Plaza's Anti-Money Laundering (AML) Program for guidance.

14.1 Common Red Flags 11/16/2018

Inconsistencies in the loan file are often a tip-off that the file contains misrepresentations. The presence of one or more red flags in a file does not necessarily mean that there was fraudulent intent. However, several red flags in a file may signal a fraudulent transaction.

High-level Red Flags





- Social Security number discrepancies within the loan file
- Address discrepancies within the loan file
- Verifications addressed to a specific party's attention
- Verifications completed on the same day they were ordered
- Verifications completed on weekend or holiday
- Documentation that includes deletions, correction fluid, or other alterations
- Numbers on the documentation that appear to be "squeezed" due to alteration
- Different handwriting or type styles within a document
- Excessive number of automated underwriting system submissions

Mortgage Application

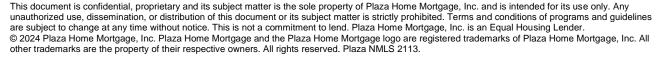
- Significant or contradictory changes from handwritten to typed application
- Unsigned or undated application
- Employer's address show only as a post office box
- Loan purpose is cash-out refinance on a recently acquired property
- Buyer currently resides in subject property
- Same phone number for applicant and employer
- Extreme payment show (may signal straw buyer and/or inflated income)
- Purchaser of investment property does not own residence

Sales Contract

- Non-arm's length transaction: seller is real estate broker, relative, employer, etc.
- · Seller is not currently reflected on title
- Purchaser is not the applicant
- Purchaser(s) deleted from/added to sales contract
- No real estate agent is involved
- Power of attorney is used
- Second mortgage is indicated, but not disclosed on the application
- Earnest money deposit equals the entire down payment, or is an odd amount for the local market
- Multiple deposit checks have inconsistent dates, e.g., #303 dated 10/1, #299 dated 11/1/18
- Name and/or address on earnest money deposit check differ from buyer's
- Real estate commission is excessive
- Contract dated after credit documents
- Contract is "boiler plate" with limited fill-in-the-blank terms, not reflective of a true negotiation

Credit Report

- No credit history or "thin" credit files
- Invalid Social Security number or variance from that on other documents
- Duplicate Social Security number or additional user of Social Security number
- Recently issued Social Security number
- Liabilities shown on credit report that are not on mortgage application
- Length of established credit is not consistent with applicant's age
- Credit patterns are inconsistent with income and lifestyle
- All tradelines opened at the same time
- Authorized user accounts have superior payment histories
- Significant differences between original and new or supplemental credit reports
- "Also known as" (AKA) or "doing business as" (DBA) indicated
- Numerous recent inquiries
- Missing pages and/or supplements





- Employment discrepancies
- Social Security number, death, or fraud alerts

Employment and Income Documentation

- Applicant's job title is generic, e.g., "manager," "vice president"
- Employer's address is a post office box, the property address, or applicant's current residence
- Applicant's residence is (will be) in location remote from employer
- Employer name is similar to a party to the transaction, e.g., uses the applicant's initials
- Employer unable to be contacted
- Year-to-date or past-year earnings are even dollar amounts
- Withholding totals vary significantly from pay period to pay period
- Pay period dates overlap and/or do not correspond with other documentation
- Abnormalities in paycheck numbering
- Handwritten VOE, pay stubs, or W-2 forms
- W-2 form presented is not the employee's copy
- Employer's identification number has a format other than 12-3456789
- Income appears to be out of line with type of employment
- Self-employed applicant does not make estimated tax payments
- Real estate taxes or mortgage interest claimed, but no ownership of real property disclosed
- Tax returns not signed or dated
- High-income applicant without paid preparer
- Paid preparer signs taxpayer's copy of tax returns
- Interest and dividend income do not align with assets
- Applicant reports substantial income but has no cash in bank
- Large increase in housing expense
- Reasonableness test: income appears to be out of line with type of employment, applicant age, education, and/or lifestyle

Asset Documentation

- Down payment source is other than deposits (gift, sale of personal property)
- Applicant's salary does not support savings on deposit
- Applicant does not use traditional banking institutions
- Pattern of loyalty to financial institutions other than the subject lender
- Balances are greater than the FDIC or SIPC insured limits
- High-asset applicant's investments are not diversified
- Excessive balance maintained in checking account
- Dates of bank statements are unusual or out of sequence
- Recently deposited funds without a plausible paper-trail or explanation
- Bank account ownership includes unknown parties
- · Balances verified as even dollar amounts
- Two-month average balance is equal to present balance
- · Source of earnest money is not apparent
- Earnest money is not reflected in account withdrawals
- Earnest money is from a bank or account with no relationship to the applicant
- Bank statements do not reflect deposits consistent with income
- Reasonableness test: assets appear to be out of line with type of employment, applicant age, education, and/or lifestyle

Appraisal

Appraisal ordered by a party to the transaction



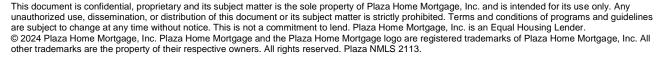
- Occupant shown to be tenant or unknown
- Owner is someone other than seller shown on sales contract
- Appraisal indicates transaction is a refinance, but other documentation reflects a purchase
- Purchase price is substantially higher than predominant market value
- Purchase price is substantially lower than predominant market value
- Subject property obsolescence is minimized
- Large positive adjustments made to comparable properties
- Comparables' sales prices do not bracket the subject's adjusted value
- Comparable sales are not similar in style, size, and amenity
- Dated sales used as comparable sales
- New construction/condo conversion: all comparable sales located in subject development
- Comparable properties are a significant distance from the subject, or located across neighborhood boundaries (main arteries, waterways, etc.)
- Map scale distorts distance of comparable properties
- "For Rent" sign appears in photographs
- Photos appear to be taken from an awkward or unusual standpoint
- Address reflected in photos does not match property address
- Weather conditions in photos inconsistent with date of appraisal
- Appraisal dated before sales contract
- Significant appreciation in short period of time
- Prior sales are listed for subject and/or comparables without adequate explanation

Title

- Prepared for and/or mailed to a party other than the lender
- Evidence of financial strain may indicate a compromised sale transaction (flip, foreclosure rescue, straw buyer refinance, etc.), or might suggest undisclosed credit problems in the case of a refinance; some indicators of financial strain may include:
 - Income tax, judgments, or similar liens recorded
 - Delinquent property taxes
 - Notice of default or modification agreement recorded
- Seller not on title
- Seller owned property for short time
- Buyer has pre-existing financial interest in the property
- Date and amount of existing encumbrances do not make sense
- Chain of title includes an interested party such as realtor or appraiser
- Buyer and seller have similar names (if concealed non-arm's length)

Owner Occupancy

- Purchase Transactions
 - Real estate listed on application, yet applicant is a renter
 - Applicant intends to lease current residence
 - o Significant or unrealistic commute distance
 - Applicant is downgrading from a larger or more expensive house
 - Sales contract is subject to an existing lease
 - Occupancy affidavits reflect applicant does not intend to occupy
 - New homeowner's insurance is a rental policy (declaration page)
- Refinance Transactions
 - o Rental property listed on application is more expensive than subject property
 - o Different mailing address on applicant's bank statements, pay advices, etc.
 - Different address reported on credit report
 - o Significant or unrealistic commute distance





- Appraisal reflects vacant or tenant occupancy
- Occupancy affidavits reflect applicant does not intend to occupy
- Homeowner's insurance is a rental policy (declarations page)
- Reverse directory does not disclose subject property address

Closing Disclosure

- Borrower or seller names are different than sales contract and title
- Sales price is inconsistent with contract, loan approval, and/or appraisal
- Excessive earnest money or builder deposit
- Earnest money deposit is inconsistent with sales contract and/or application
- Payouts to unknown parties
- Refinance pays off previously undisclosed liens
- Excessive sales commissions
- Excessive fees and/or points
- Seller-paid closing costs, especially for purchaser with sufficient assets for down payment
- Cash proceeds to borrower are inconsistent with final application and loan approval

