



Credit Guidelines

Revised 6/4/2026

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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.

Plaza prohibits anyone with ownership interest in the Mortgage Broker from having their personal loan originated through the same Mortgage Broker. The interested applicant's loan will need to be originated through Plaza's Retail channel or through a different Mortgage Broker where ownership interest is not present. Mortgage Broker employees cannot have any involvement in their personal loan being originated or processed. In the event a Mortgage Broker only has one Loan Officer or Processor, the personal loan of the Loan Officer or Processor will need to be originated through Plaza's Retail channel or through a different Mortgage Broker.

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

Refer to Agency 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 applicable agency guidelines.

1.3.3 Automated Validation Services

Plaza Home Loans allows the use of automated validation services for employment, income and asset assessment. For FNMA, see section B3-2-02 DU Validation Service. For FHLMC, see sections 5901.1 for details regarding Automated Income Assessment, 5902.1 for Automated Asset Assessment, 5903.1 for Income Assessment using Tax Data, 5904.1 for Income Assessment using Account Data and 5905.1 for Employment Assessment using Account Data. All agency guidelines and AUS messages must be followed. See the following Day 1 Certainty-Asset Verification User guide: **Day 1 Certainty-Asset Verification User Guide**.

1.4 Manual Underwriting

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

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.

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

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** for conventional loans.

2.9 Non-Permanent Resident Alien

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** for conventional loans.

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

Effective with case assignments on or after 5/25/25, Non-Permanent Resident Aliens are not eligible.

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

See applicable agency guidelines and specific program guidelines.

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. See applicable agency guidelines for exceptions to occupancy requirements by the borrower.

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. See applicable agency guidelines for guidelines and restrictions related to second homes.

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

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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 pre-foreclosure 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

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

For all other guidance on Freddie Mac No Cash-Out Refinances see the applicable Agency guidelines as well as Plaza Home Mortgage's internal Program Guidelines.

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. For all other guidance on FNMA's Limited Cash-Out Refinances, see the applicable Agency guidelines as well as Plaza Home Mortgage's internal Program Guidelines.

Cash Back to the Borrower

See applicable Agency guidelines.

3.3.4 Student Loan Cash-Out Refinance – Fannie Mae Only

See applicable Agency guidelines.

3.3.5 Cash-Out Refinance

See applicable Agency requirements and Plaza Home Mortgage's Program Guidelines.

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

See applicable Agency guidelines.

3.3.8 Investor and Second Home Transactions

Refer to Plaza Home Mortgage's internal Program Guidelines and all applicable Agency guidelines.

3.4 Other Real Estate Owned – Retaining Current Residence

Refer to applicable Agency guidelines.

3.5 Current Principal Residence Pending Sale

Refer to applicable Agency guidelines.



3.6 Subordinate Financing

See applicable Agency guidelines for information regarding Subordinate Financing and acceptable and unacceptable forms of Subordinate Financing types.

3.6.1 Subordinate Financing Terms

See applicable Agency guidelines.

3.6.2 Variable Payment Terms for Subordinate Financing

See applicable Agency guidelines.

3.6.3 Subordinate Financing Documentation Requirements

See applicable Agency guidelines.

3.6.4 Re-subordination Requirements for Refinance Transactions

See applicable Agency guidelines.

3.7 Lease Option and Land Contract for Deed

Lease Options

See applicable Agency guidelines.

Land Contracts

See applicable Agency guidelines.

3.8 Delayed Financing

See applicable Agency guidelines.

3.9 Max Number of Financed Properties

See applicable Agency guidelines.

3.10 Private Transfer Fees

See applicable Agency guidelines.

3.11 Identity of Interest

See applicable Agency guidelines.

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3.12 Non-Arm's Length Transactions

See applicable Agency guidelines.

3.13 Property Flips

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

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% exceptions **are not** offered.
- Escrow waivers for LTV > 90% & <= 95%, **REQUIRES** a minimum of 3 months verified reserves. If the required 3 months' reserves are not present, an exception through Corporate Underwriting is required and the system rule will need to be overridden through Secondary Marketing.

- Impounds should NOT be waived for borrowers with blemished credit histories or first-time homebuyers (FTHB). Underwriting Team Managers can waive escrows (90% LTV max) in this case when compensating factors are present including but not limited to: post-closing reserves, limited to no payment shock, a previous mortgage history with no impounds and no evidence of delinquent taxes or insurance, low DTI combined with demonstrated ability to save. The Underwriting Team Manager must document their decision in Loan Comments and will need to request the system rule be overridden through Secondary Marketing.
- Underwriters may waive escrows to a maximum LTV of 90% in cases where the borrower is not a FTHB, does not have blemished credit and the overall file supports the borrowers demonstrated ability to pay and to save which may be supported by an existing history of as agreed mortgage payments and taxes and insurance paid on time.
- 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

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 reports in another lender’s name are acceptable when the credit report meets all Plaza requirements, it has been re-issued in AUS and Plaza is able to run AUS as needed. **Note:** LPA may not properly run with a credit report from another lender however DU typically will, If LPA will not run, and is required, a new credit report may be required to move forward with the loan.

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 single-bureau soft pull credit report, is allowed on non-credit qualifying VA IRRRLs and FHA Streamlines 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

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

Refer to the applicable Agency guidelines.

4.5 Derogatory Credit Matrix

Refer to applicable Agency guidelines.

4.6 Limited or Non-Traditional Credit History

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. See Agency guidelines for acceptable types of non-traditional credit when AUS messages and guidelines require.

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

Fannie Mae: Effective 6/26/26, Plaza is not required to perform any additional investigation into the borrower's credit history unless instructed by DU Approve/Eligible findings. See the FNMA selling guide in rare instances when a manual underwrite is permitted by Plaza.

Freddie Mac: Refer to applicable Agency guidelines however, Underwriters may not subjectively determine whether the authorized user account has had an insignificant impact on the borrower's overall credit history and score. Evidence of ownership of the account or the borrower's documented payment history as outlined in FHLMC's guidelines must be followed.

4.8 Fraud Alerts and Identity Theft

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

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- 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

Refer to applicable Agency guidelines.

5.2 Judgments, Garnishments, and Liens

Refer to applicable Agency guidelines.

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

Refer to applicable Agency guidelines.

5.5 Business Debt in Borrower's Name

Refer to applicable Agency guidelines.

5.6 Debts Paid by Others

Refer to applicable Agency guidelines.

5.7 Contingent Liabilities

Refer to applicable Agency guidelines.

5.8 Court Ordered Assignment of Debt

Refer to applicable Agency guidelines.

5.9 Deferred Student Loans

Refer to applicable Agency guidelines.

5.10 Installment Loans

Refer to applicable Agency guidelines.

5.11 Lease Payments

Refer to applicable Agency guidelines.

5.12 Non-Reimbursed Employee Expenses

Refer to applicable Agency guidelines.

5.13 Revolving Accounts

Refer to applicable Agency guidelines.

5.14 Payoff or Pay Down of Debt

Refer to applicable Agency guidelines.

5.15 Exclusion of Debt

Refer to applicable Agency guidelines.



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 borrower's 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 re-underwritten through the AUS system if outside tolerance of AUS or loan program guidelines.

5.17 IRS Installment Agreements

Refer to applicable Agency guidelines.

FNMA and FHLMC: For an installment agreement approved by the IRS, the lender must obtain a copy of the approved agreement showing monthly payment and total amount owed, and evidence the borrower is current on payments.

For an installment agreement still pending approval, the lender must obtain a copy of the application showing repayment terms, monthly payment, and the total amount owed. For FHLMC, the greater of the requested payment or the taxes owed divided by 72 months should be used.

If these requirements are not met, the borrower must fully pay off the IRS tax balance either before or at closing.

5.18 Property Tax Calculations and Exemptions

Texas only-all products:

For purchases, property taxes on existing construction are calculated at 80% of the Appraised Value times the actual millage rate. For new construction purchases, 1.5% of the Sales Price is used and a tax certificate is not obtained.

Refinances: The property taxes per the preliminary title report or tax cert. may be used. Underwriters however are advised to ensure the existing property taxes have been re-assessed since the last purchase if the borrower recently acquired the property.

CA-All products:

Purchases: Use the Sales Price times 1.25%, the tax cert. should be examined for any extraordinary special assessments in the subject properties area that might need to be added such as mello roos.

Refinances: Use the current taxes per the preliminary title report and or the tax cert. Note: If the home transferred ownership recently, it is very important that the Underwriter ensure the taxes have been re-assessed since the last transfer. Otherwise, 1.25% of the last transfer price should be used. The Underwriter can perform a basic check by multiplying the last transfer price by 1.25%. If the property taxes reported on the preliminary title report are substantially lower, that indicates the taxes have not yet been re-assessed and 1.25% of the last transfer price should be used.



Property Tax Exemptions:

FHLMC only: If the file contains documentation evidencing a borrower qualifies for a property tax exemption, the reduced tax calculation may be used for qualifying. Plaza does not file the exemption for the borrower; the borrower is responsible for applying for the exemption post close. An executed copy of the application should be retained in file along with evidence of the locality's exemption and the borrowers' qualification. Pace notes should document the calculation used.

FNMA: A property tax exemption reduces or eliminates the obligation to pay property taxes on a specific property. The property tax exemption reduces the assessed value of the property which in turn reduces or eliminates the property taxes owed. Property tax exemptions vary by location and eligibility factors. When qualifying a borrower for a mortgage loan, only those exemptions which are automatically granted or already approved may be used when calculating property taxes. Property tax exemptions which must be applied for, and approval of which will be received post close, cannot be used in the qualifying process.

Exception VA only: For those states exempting eligible veterans from paying property taxes, the borrower may be qualified without property taxes or impounds for property taxes when the following is provided:

- Verification of the state program exempting the veteran from paying property taxes
- Proof the borrower is eligible for the exemption based on the jurisdictions criteria
- Statement from the veteran verifying they understand Plaza is not responsible for obtaining their exemption and they must immediately apply for the exemption post-close.
- The **Property Tax Escrow Payment Notice FM-574** and the **Property Tax Exemption Acknowledgement FM-696** must be signed at closing. Documents related to the above are to be filed in Xdocs under "Settlement-Prop Tax Information".

Section 6 Employment and Income

6.1 Employment Gaps

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.

6.2 Hourly Employment

Refer to applicable Agency guidelines. Where the number of hours is fluctuating, Agency guidelines must be followed. See FNMA B3-3.1-01 and FHLMC 5301.1 for full details and requirements when base earnings and or hours is fluctuating.



6.3 Income Derived from the Cannabis Industry

Income derived from employment in the Cannabis industry (Conventional only) may be eligible under the following circumstances:

- FHLMC ineligible
- FNMA eligible by **exception only**; The borrower may not have **any** ownership interest in the business and can only be a W-2 employee. Ownership of the business should be documented to ensure the borrower does not maintain any percentage ownership. An exception must be submitted to Corporate Underwriting.

6.4 Bonus or Overtime

Refer to applicable Agency guidelines.

6.5 Commission Income

Refer to applicable Agency guidelines

6.6 Employment Offers and Contracts-Income Commencing After the Note

FNMA: See B3-3.3-03 for complete details. Plaza only allows Option 2 in the FNMA seller guide. All guidelines and documentation requirements must be followed.

FHLMC: See 5303.2 for complete details. Plaza only allows Option 1 in the FHLMC seller guide. All guidelines and documentation requirements must be followed including a VOE within 10 days note execution which verifies the terms of the new employment or salary increase with the existing employer.

6.7 Secondary Employment

Refer to applicable Agency guidelines.

6.8 Seasonal Employment

Refer to applicable Agency guidelines.

6.9 Temporary Income

Refer to applicable Agency guidelines.

6.10 Furloughed Borrowers

Refer to applicable Agency guidelines.

6.11 Employment Related Assets as Qualifying Income

Refer to applicable Agency guidelines.



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
 - 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
 - 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
 - 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.**

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6.13 Self Employment

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, if 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.

Note: Caution should be applied when a self-employed borrower is relocating to a different geographical area. The continuity of the income must be supported with documentation and a written analysis supporting how the qualifying level of income will continue.

6.13.1 Self-Employment Income Not Used for Qualification

See applicable Agency guidelines.

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.

$$\text{Quick Ratio} = (\text{current assets} - \text{inventory}) \div \text{current liabilities}$$

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

$$\text{Current Ratio} = \text{current assets} \div \text{current liabilities}$$

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 Self-Employed and Non-Self-Employed

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 earnings 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.

FHLMC: Non-Self-Employed K-1 Income (<25% ownership)

A history of receipt of less than one year may represent stable monthly income provided the following:

- The guaranteed payments are from a professional services partnership i.e., accounting or law firm
- The borrower recently changed from an employee to partner in the same firm with a nominal ownership interest i.e., .01-2%
- Guaranteed payments and ownership % are documented with at least the most recent YTD earnings and payment amount and partnership agreement.
- See the FHLMC selling guide 5303.1 for further details and requirements when the above does not apply.

6.14 Rental Income (Conventional)

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. **OR**
- A 1-4-unit investment property.

6.14.1 Reporting of Gross Monthly Rent

Eligible rents on the subject property (gross monthly rent) must be reported to both Fannie Mae and Freddie Mac in the loan delivery data for all two- to four-unit principal residence properties and investment properties, **regardless of whether the borrower is using rental income to qualify for the loan**. If the borrower is using rental income from the subject property to qualify for the loan, all of the applicable requirements above must be followed to document and calculate the income.

If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed above, or may provide one of the following sources (listed in order of preference):

- the appraisal report for a one-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule (Form 1007)*, provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;
- if the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
- if an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
 - a written statement from the borrower, or
 - an addition to the Form 1003.

The data is captured in BREEZE on the Property Address screen under Property Information.

For complete guidance on Rental Income for FNMA, see B3-3.1-08. B3-3.1-09 for Boarder Income, and B5-6-02 for Accessory Unit Income under HomeReady guidelines,

For complete guidance on Rental Income for FHLMC, see 5306.1

6.15 Third Party Vendor Verification

Plaza may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable and may be used in lieu of W-2's and Paystubs as long as:

- The borrower provided proper authorization for the underwriter to use this verification method.
- All information necessary to calculate the qualifying income is present and complies with AUS messaging.
- 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.
- Verification of Employment received directly from the borrower's employer may not be used in lieu of W-2's and Paystubs.

6.16 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.

FNMA: IRS Form 8821 may be used as an alternative if the borrower signs an authorization permitting Plaza to use such alternatives.

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 (Solicitud De Copia De Planilla, Relevé De Herencia Y De Donación). 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.

6.17 Tax Returns

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

Amended Tax Return

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.

6.17.1 Allowable Age of Federal Tax Returns

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

See B1-1-03.

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.

See 5302.4 for complete documentation requirements and allowable age of tax returns.

6.17.2 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.

6.17.3 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:

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- Non-Conforming loan transactions
- Self-Employed Borrower (All Programs)
- 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:
 - 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
- Income verified with tax returns (e.g., rental income, capital gains, etc.)

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

FHLMC: In cases where a borrower is employed by family, IRS wage and income transcripts may be used in lieu of tax returns, and the transcripts must validate the prior year earnings and support the current income level. If the current income level is not supported by the transcripts, only the prior year's income level may be used for qualifying.

FNMA: The borrowers' qualifying income must be consistent with the most recent year's earnings, documented via W-2's or tax returns.

When employed by family, neither FHLMC nor FNMA permit a new level of qualifying income which is not supported by the previous years' earnings.

6.17.4 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:
 - Bonus income
 - A raise
 - A job change

6.17.5 1099 - Income Reported on IRS Form 1099 (5/10/2023)

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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

See applicable Agency guidelines.

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

See applicable Agency requirements.

7.5 Trust Funds

See applicable Agency requirements.

7.6 Gift Funds and Gift of Equity

See applicable Agency 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

See applicable Agency requirements.

Freddie Mac

See applicable Agency requirements.

7.9 Required Minimum Reserves

In limited instances where a loan is manually underwritten, see the FNMA **Eligibility Matrix** for required reserves. Otherwise see applicable Agency requirements. Minimum reserves for a manually underwritten loan with FHLMC are: None for a primary 1-unit property and 6-months for a primary 2-4 unit property.

For all other guidance regarding minimum required reserves, see applicable Agency guidelines.

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.

7.10 Unacceptable Sources of Reserves

See applicable Agency guidelines.

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%

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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

Note: FNMA and FHLMC do not consider seller-paid real estate fees for the borrower as interested party contributions if these fees are paid in accordance with local custom, and they are not subject to standard IPC limits.

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

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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 Program and 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

See applicable Agency Guidelines.

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.

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- 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.
 - 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

See applicable Agency Guidelines.

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)

See applicable Agency Guidelines.

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 comparables were selected.

8.7 Mixed-Use Property

See applicable Agency Guidelines.

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

FNMA Leasehold Eligibility

- Manufactured Homes on Leasehold Estates are ineligible
- Value Acceptance and Value Acceptance + Property Data may not be exercised on Leasehold Estates

Lease Requirements – Freddie Mac

FHLMC Leasehold Eligibility

- Manufactured Homes on Leasehold Estates are ineligible
- ACE and ACE + PDR may not be exercised on Leasehold Estates

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

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). If solar panels are leased, the underwriter must review the lease agreement and retain it in the loan file.

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 (06/04/2025)**.

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 solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records.	• Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan; • Include the debt obligation in the DTI ratio calculation. • Provided that the panels cannot be 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 solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.	• Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or 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:
 - Terminate the lease/agreement and require the third-party owner to remove the equipment;
 - 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 special assessment district	Underwriters must require appraisers to report on any special assessments that affect the property.
The special assessment district is experiencing financial difficulty and that difficulty has an effect on the value or marketability of the subject property	Underwriters must ensure that appraisers: • Reflect the difficulty in the analysis. • Note the difficulty and impact in the appraisal report. • 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 the appropriate agencies guidelines regarding Community Seconds. The **Community Seconds Checklist** is to be used and 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 administering 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.	
Borrowers	Must meet applicable criteria of the deed restriction. 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)

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	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.
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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

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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

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- 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.
- Ensure that appraisals are free from subjective or prohibited language and do not reflect any discriminatory practices or bias, including but not limited to unsupported assumptions, personal opinions, or perceptions.

Refer to the [Appraisal Job Aid](#) for additional guidance.

10.6 Reviewing the Appraisal

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 Appraisal Quality Escalation

Overview: Appraisal quality is one of the pillars of loan quality and as such, the following process addresses how an Underwriter can escalate examples of poor appraisal quality to Plaza's Appraisal Solutions team. Appraisal quality concerns will be escalated to the appropriate appraiser and AMC's attention by Plaza's Appraisal Solutions team for correction and on-going improvement to their quality control.

Appraisal Quality Examples: Examples of appraisal quality issues to be escalated include but are not limited to the following:

- Properties appraised "as-is" when there are needed repairs that clearly impact livability, functionality, soundness, and or safety of the subject property.
- Purchase loans where the purchase contract identifies repairs similar to those cited above, however the appraisal does not speak to these repairs or concerns. Appraisers are required to review purchase contracts and repairs that impact livability, functionality, soundness, and or safety should be cited by the appraiser.
- The subject property presents electrical, plumbing, foundation, and or roof repairs concerns. The appraiser comments on the issues yet fails to make the report subject to repairs and or needed inspections to determine root cause.
- Any other appraisal concern that is of a serious nature as determined by the Underwriter and Underwriting Manager not properly addressed by the Appraiser.

Escalation Process:

- The Underwriter identifies an appraisal concern similar to the examples cited above. The Underwriter is to discuss the concern with their manager, ensure the issue rises to the level of a serious concern and the appraiser has clearly failed to address it properly.
- The Underwriting Manager will then escalate the concern to Corporate Underwriting citing the borrower's name, loan number, and the nature of the appraisal quality concern.
- Corporate Underwriting will be responsible for cataloging the appraisal concerns and providing the information to Appraisal Solutions as they occur so that Appraisal Solutions can track quality by Appraiser and AMC and document any action taken with the AMC to improve their appraisal quality.

Appraisal Solutions: The Appraisal Solutions team is responsible for addressing escalated appraisal concerns with the Appraiser/AMC. Appraisal Solutions will report back their findings to Corporate Underwriting, including any corrective action the AMC may have taken to mitigate future quality issues. Corporate Underwriting will review the AMC's response and determine if further action is required with the AMC or Appraiser. Appraisal Solutions will use the data gathered to monitor Appraiser and AMC quality. On a quarterly basis, Appraisal Solutions will review the monitoring list with, at minimum, SVP, Chief of Credit Risk and Underwriting and SVP, Operations. Additionally, Appraisal Solutions is to have a quarterly touch base call with each AMC where any quality issues identified in the last quarter will be discussed.

Adding Appraisers and AMCs to Plaza's ineligible list: Corporate Underwriting is responsible for the monitoring of trends and appraisal quality as identified through the Appraisal Quality Escalation Process. Appraisers and or AMCs will be added to Plaza's ineligible list when Corporate Underwriting determines that appraisers or an AMC is not meeting Plaza's quality standard and is unwilling to assist Plaza in mitigating concerns found within their appraisal reports. Additionally, the VP, Quality Assurance and Control and or the Supervisor, Appraisal Solutions working in conjunction with the SVP, Chief of Credit Risk and Underwriting and SVP, Operations may add appraisers and or AMC's to Plaza's ineligible list.



Underwriters and Underwriting Managers are still responsible for following the standard process to have appraisal corrections performed as needed on appraisals. The appraisal Quality Escalation Process is not used to request appraisal corrections.

10.8 Age Requirements for Original Appraisals

Table 10-1					
Conforming Conventional		Non-Conforming		FHA, VA and USDA	
Existing	New Construction	Existing	New Construction	Existing-FHA, VA, USDA	New Construction FHA, VA, USDA
120 Days	120 Days	120 Days	120 Days	180 Days-USDA 150 days	180 Days-USDA 150 days

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”.

10.9 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.

10.10 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.



10.11 Property Condition

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).

Property disclosures referenced in the purchase contract must be reviewed by the Underwriter and the Appraiser. If property defects are identified or disclosed including but not limited to: Adverse conditions that affect market value, health and safety, condition, marketability, or property condition ratings, the issues must be assessed by the Appraiser and Underwriter for needed corrective action. Any property disclosures referenced in the contract should be conditioned for if not contained within the purchase contract.

10.12 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.



10.13 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.

10.14 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.

10.15 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.

10.16 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 apartment.	No

10.17 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.

10.18 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.

10.19 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.

10.20 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; and
- 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.

10.21 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 off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

10.22 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

10.23 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.

10.24 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.

10.25 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.

10.26 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.

10.27 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.
- 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.
 - 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.

- 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.

10.28 Value Acceptance/Automated Collateral Evaluation (ACE)

Fannie Mae

For certain loan casefiles, DU offers Value Acceptance— an option to waive the appraisal requirement. For loan casefiles that are not eligible for Value Acceptance, DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

Value Acceptance 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 Value Acceptance 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 a Value Acceptance 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 Value Acceptance message 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 - A full appraisal report is required regardless of Value Acceptance findings 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 an 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.
 - 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.



- The applicable state law requires a full appraisal.
- Rental income is being used on the subject property to qualify the borrower.
- **Note:** Value Acceptance or ACE waivers or non-standard appraisal reports may be exercised on loans in process at the time of the disaster. A property inspection or disaster inspection is required prior to closing for 90 days following an incident start date. Underwriters are to carefully review AUS throughout the loan process to ensure that the waiver is maintained through closing.

Value Acceptance is not eligible for the following loan characteristics:

2-4 Unit Properties; co-op or manufactured homes; proposed construction; construction to permanent (including two-time close); Homestyle Renovation and Energy; leasehold; Texas 50(a)(6); community land trusts; purchase price or appraised value exceeds 1,000,000; gift of equity; ineligible DU recommendation and manually underwritten loans. Note, Plaza may not offer loans with the above cited characteristics, however a comprehensive list of ineligible loan characteristics is provided for clarity regarding Value Acceptance.

*Refer to the Fannie Mae selling guide for complete requirements.

Value Acceptance + Property Data-For certain DU casefiles, DU offers Value Acceptance + Property Data, an option that requires exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required. See FNMA B4-1.4-11, Value Acceptance + Property Data for detailed eligibility and restrictions.

When Value Acceptance or Value Acceptance + Property Data is offered and exercised, the final submission to DU must maintain an eligibility message to be acceptable. SFC 774 is required for Value Acceptance + Property Data and the property data collection is submitted to the Property Data API for to the note date.

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 estimated value in Loan Product Advisor may not be changed for the purposes of obtaining an ACE or ACE + PDR or more favorable mortgage terms.

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 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 or PDR has been obtained in connection with the Mortgage
- Mortgages secured by one of the following:
 - A Manufactured Home, or
 - A leasehold estate
 - Co-Op Share loans
- Mortgages secured by Mortgaged Premises subject to resale restrictions excluding age-based resale restrictions
- Mortgages secured by a property acquired in a Non-Arm's Length Transaction
- Mortgages secured by a property where the property owner at the time of sale is a lender or government entity
- Construction Conversion and Renovation Mortgages
- Community Land Trust 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
 - Rental Income from an ADU on a subject 1-unit Primary Residence is used to qualify the borrower
 - Adverse physical property conditions that are disclosed within sales contracts, property inspections etc. unless minor in nature

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.

10.29 Hybrid Appraisals

Hybrid appraisals are an appraisal option requiring Property Data Collection (PDC) for FNMA and Property Data Report (PDR) for FHLMC which must be performed by a trained and vetted third party for submission to the appraiser for development of a credible opinion of value. Where offered by AUS, hybrid appraisals are permitted. Hybrid appraisals are not eligible for: 2-4 Unit properties, Co-ops, manufactured homes, proposed construction, construction to permanent loans, Homestyle Renovation loans, DU or LPA case files which receive an ineligible recommendation, or manually underwritten loans.

There are instances where hybrid appraisals must be upgraded to a full report such as insufficient data to develop a reasonable conclusion of value, data discrepancies that the appraiser cannot resolve or property deficiencies including but not limited to active roof or plumbing leaks, visual structural issues, non-functional mechanical systems, health and safety hazards, environmental concerns or failing sanitary systems. Additional information regarding Hybrid appraisals can be found in the FNMA and FHLMC seller guide.

10.30 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

10.31 Appraisal Dispute Process

The underwriting analysis must verify that any changes made to the original appraisal report were made only by the original appraiser.

10.32 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.

10.33 Age Requirements for Original Appraisals

Table 10-2					
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:

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.

10.34 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 Appraisal and Re-Inspection 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.

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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

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- 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
 - 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
 - Rental property listed on application is more expensive than subject property
 - Different mailing address on applicant's bank statements, pay advices, etc.
 - Different address reported on credit report
 - 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

Refer to **Plaza's Red Flag Policy** for additional details.

