Maverick Solutions™
Powered by FGMC

Jumbo Product Guide

CONTENTS

CHAPTER 1. TRAILBLAZER JUMBO

First Guaranty Mortgage Corporation (FGMC) believes that a robust product set is an important facet of FGMC's initiative to help consumers fulfill their homeownership goals. FGMC leverages a logical approach to the evaluation of borrower capacity and creditworthiness, with an emphasis on Ability to Repay (ATR) and risk mitigation through sound underwriting and documentation practices. The products and programs are supported by compliance and quality control.

Recognizing the risk outside of the Qualified Mortgage (QM) space, FGMC has developed product and program guidance to ensure each borrower application is evaluated fully. When the qualifying criteria is met, the loan is approved based on a reasonable belief that the borrower(s) have the Ability to Repay the subject loan. Departures from the product and credit guidance provided below may result in a loan denial.

1.1 Underwriting Overview

FGMC requires loans submitted for approval under the product offering meet the standards set in the guidelines herein and are consistent with the requirements associated with Dodd Frank Wall Street Reform and Consumer Protection Act, which requires lenders to make a reasonable, good faith determination of a consumer's Ability to Repay (ATR) any consumer credit transaction secured by a dwelling. The following program requirements are designed to ensure loans made to borrowers under this program have demonstrated and documented the ability and capacity to repay the debt, satisfying ATR requirements. For any underwriting guidance not specified directly within this resource, Fannie Mae standards will be applied. It should be noted that additional information may be requested at the discretion of the Underwriter.

1.2 Product Features

Trailblazer Jumbo is designed for well qualified borrowers (strong credit, income, assets, etc.). The program allows for:

- Minimum loan amount is $1 over the Federal Housing Finance Agency (FHFA) General Conforming Loan Limit
- Maximum loan amounts ≤ $3,000,000
- Fixed Rate
- Debt to Income (DTI) ≤ 43%
- Maximum LTV ≤ 90%

1.3 Product Guide Overview

This resource is considered a "Product Guide" with applicable guidance around product features and underwriting requirements. Content within this resource will identify product selection, qualification requirements, and if a borrower's credit and Ability to Repay (ATR) meets the standards necessary to obtain loan approval. For any underwriting guidance not specified directly within this resource, Fannie Mae standards will be applied.

Subsequent chapters will address:

- Appraisal Requirements
- Assets
- Borrower Eligibility
- Condominium
- Credit
- Flood Insurance
- Homeowner's Insurance
- Income
- Loan Eligibility
- Product Requirements
- Property Eligibility
- Refinance
- Subordinate Financing
- Title Insurance Requirements

1.4 Program Parameters

This program provides fixed rate mortgage option for borrowers seeking financing with features that are within the Qualified Mortgage (see Dodd-Frank/CFPB for standards) requirements.

All Trailblazer Jumbo loans must meet the requirements as stated within this guide, in compliance with Appendix Q.

1.5 Product Types

The following product types are acceptable:

- 30-Year Fixed

1.6 Loan Eligibility

Loans that are eligible for sale to the Agencies (FNMA, FHLMC, FHA, USDA and VA) are ineligible for the Trailblazer Jumbo product.

Properties without a property address (TBD properties) are eligible for purchase transactions.

1.7 Eligibility Table

The eligibility table displays the maximum loan amount and LTV allowed based on the applicant's FICO, property type and occupancy:

	Property Type	Occupancy	Transaction	Max Loan Amount	LTV/CLTV	FICO	DTI
Fixed	SFR, 2-4 Unit	Primary Residence	Purchase	$1,000,000	90%	700	40
	SFR, 2-4 Unit, Condo	Primary Residence	Purchase/Rate Term Refinance	$1,000,000	80%	660	43
				$1,500,000	85%	680	43
				$2,500,000	75%	720	43
				$3,000,000	70%	740	43
	SFR, 2-4 Unit, Condo	Primary Residence	Cash Out Refinance	$1,000,000	80%	680	43
				$1,500,000	75%	700	43
				$2,000,000	70%	700	43
	SFR, Condo	Second Home	Purchase/Rate Term Refinance	$1,000,000	80%	680	43
				$1,500,000	75%	680	43
	SFD	Second Home	Cash Out Refinance	$1,500,000	70%	700	43
	Condo	Second Home	Cash Out Refinance	$1,500,000	60%	720	43
	SFR, 2-4 Unit, Condo	Investment Property	Purchase/Rate Term Refinance	$1,000,000	75%	700	40
				$1,500,000	70%	700	40
	SFR, 2-4 Unit	Investment Property	Cash Out Refinance	$1,500,000	60%	700	40
	Condo	Investment Property	Cash Out Refinance	$1,500,000	60%	720	40

CHAPTER 2. BORROWER ELIGIBILITY

This section outlines borrower eligibility requirements that apply to the Trailblazer Jumbo program. Maximum number of borrower(s) per transaction is four (4) on a total of two (2) Uniform Residential Loan Applications.

2.1 Compliance Requirements

FGMC strictly adheres to federal, state, and agency laws and regulations. It is the Lender/Broker/Client's responsibility to adhere to all applicable federal, state, and agency laws and regulations prior to loan closing. FGMC will not originate or purchase any loan that meets the definition of a "subprime loan" under New York State Law.

All loans must meet this acceptability criteria:

- Must evidence the Ability to Repay and adhere to the Eligibility Table.
- Must comply with all federal, state and agency laws and regulations.

2.2 Points and Fees Test

- Borrower-paid points, fees, and costs must not exceed 3% of the total loan amount.
- Points, fees, and cost imposition must comply with all federal and state regulations.
- Federal and state high-cost transactions are not eligible for origination/purchase.

2.3 Conflict of Interest

Situations where the borrower has a dual role in the transaction, namely as borrower and as another party in the same transaction are prohibited. These include, but are not limited to, situations where the borrower is also:

- The builder
- The loan officer on the transaction
- The listing agent
- Both the listing and selling agent

The borrower is allowed to be the selling agent in the transaction where borrower is the purchaser so long as borrower is not also the listing agent.

Additional conflicts:

- The owner of a Brokerage Company or a lender may not originate his personal loan with his own company. The owner must originate with an unrelated company.
- The employee of a loan brokerage company or a lender may use his employer's company to originate a loan so long as that employee is not involved in the origination process (e.g., loan officer, underwriter, processor, etc.) and does not financially benefit from the transaction.

2.4 Exposure

The maximum exposure to a single borrower with FGMC is:

- Four (4) financed properties

2.5 Revocable Inter Vivos Trust

A Revocable Trust Inter Vivos is permitted when the trust has ownership interest in the subject property.

- The revocable *inter vivos* trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) establishing the trust.
- If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify the mortgage.
- The trustee(s) must include either:
  - The individual establishing the trust (or at least one of the individuals, if there are two or more); or
  - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or deed of trust note.
- In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee.
- Irrevocable Trust(s) are not eligible.
- Irrevocable or Land Trust(s) are not eligible.
- Fannie Mae requirements must be followed.

2.6 Net Tangible Benefit

All refinance transactions must evidence a Net Tangible Benefit (NTB).

In the states of Maine, Maryland, Massachusetts, Rhode Island and West Virginia the NTB must be analyzed per State requirements by the Underwriter and included in the loan file.

All transactions in the state of Colorado (purchase and refinance) require the borrower to complete and execute the NTB form.

Correspondent may utilize the FGMC Net Tangible Benefit form or an equivalent document.

Examples of a NTB include:

- Reduced monthly mortgage principal and interest payment
- More stable mortgage product
- Reduction in the interest rate
- Reduction in the amortization term
- Cash in hand/debt consolidation

2.7 Non-Occupant Co-Borrower

Non-occupant co-borrower(s) are permitted as long as the income from the non-occupying co-borrower(s) is not included for purposes of qualifying the loan, such as DTI.

2.8 Occupancy

With each file, due consideration must be given to the loan characteristics including, but not limited to other real estate owned by the borrower(s), the commuting distance to work and the appraiser's comments. Every effort must be made to ascertain whether the occupancy status of the property as represented by the borrower(s) is reasonable.

2.8.1 Owner-Occupied

Owner-Occupied refers to a property that is occupied as the borrower(s) primary residence for a major portion of the year. Owner-Occupied is allowed on 1-4 family unit dwellings (including condominium's and PUDs).

2.8.2 Second Home

A second home is a single family dwelling that the borrower occupies in addition to their primary residence. A typical second home will meet the following criteria:

- Must be located a reasonable distance away from the borrower(s) primary residence
- Borrower(s) may not own any other residential real estate in the same locale or vicinity
- Suitable for year round occupancy
- Must be available for borrower(s) exclusive use. It may not be subject to any timesharing arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.
- Any rental income received will not be considered
- Property must be a one-unit dwelling

2.8.3 Investment Property

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

2.9 Power of Attorney

A Power of Attorney (POA) is acceptable when the following requirements are met:

- Permitted for purchase and no cash-out transactions; not permitted for a cash-out refinance.
- Borrower who executed the POA signed the initial 1003.
- POA must comply with federal law and laws of the state in which the borrower executes it.
- Title Company must always approve the POA as they are the party insuring the loan. The POA must comply with state and local requirements regarding validity, signature and acknowledgment.
- The Power of Attorney must be notarized and, unless otherwise required by applicable law, must reference the address of the subject property.
- POA must specifically authorize the actions necessary to close the loan, whether it is a purchase or refinance, and the terms of the loan cannot exceed the authority in the POA.
- Final Title Policy must not contain any exceptions relating to the POA.
- POA must be recorded with the Mortgage/Deed of Trust.
- POA must be specific to the transaction.
- POA must contain an expiration date.
- Must be used only to execute the final loan documents.
- No interested party to the transaction (such as the seller, broker, loan officer, realtor, etc.) may act as Power of Attorney.

- Follow Fannie-Mae signature requirements.

2.10 Red Flags

Mortgage fraud red flags are inconsistencies in the information presented in an application or a loan file that would cause someone to take a second look to eliminate mistakes or identify misrepresentations. All parties that review loan files are responsible to exercise due diligence in identifying and addressing red flags.

2.11 Residency

Eligible borrower residency status:

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien

2.11.1 Resident Alien Requirements

- Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa.
  - Participating countries can be verified through the U.S. Department of State website at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html.
- Documents signed by borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal.
- Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

2.11.1.1 Deferred Action for Childhood Arrivals (DACA)

FGMC will accept individuals classified by the U.S. Citizenship and Immigration Services (USCIS) under the "Deferred Action for Childhood Arrivals" (DACA) program. These applicants are legally permitted to work in the U.S. and as such are eligible to apply for all applicable loan products offered under Maverick Solutions.

The following requirements must be adhered to:

- Primary residence only;
- The borrower must have a valid Social Security Number (SSN); and

- The borrower must be eligible to work in the U.S., as evidenced by the Employment Authorization Document issued by the USCIS.

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

2.11.2 Permanent Resident Alien

A borrower with lawful permanent resident alien status may be eligible provided the borrower satisfies the same requirements, terms and conditions as those for U.S. citizens. The file must include evidence of the permanent residency and indicate that the borrower is a lawful permanent resident alien on the Uniform Residential Loan Application (URLA).

To document lawful, permanent residency status, provide a valid, unexpired copy of the Permanent Resident Card with photo (USCIS Form I-551), also known as a Green Card.

- If the Permanent Resident Card is expiring within six (6) months of the Note Date, include a copy of the United States Citizenship and Immigration Services (USCIS) Form I-90 (Application to Replace Permanent Resident Alien Card) filing receipt.
- Permanent Resident Cards with a CR (Conditional Resident) that are expiring within 90 days of the Note Date must be accompanied by a copy of the USCIS Form I-751 (Petition to Remove Conditions on Residence) or USCIS Form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.

2.11.3 Non-Permanent Resident Alien

A borrower who is a non-permanent resident alien may be eligible provided the documentation issued by the USCIS meets the requirements within the following the VISA Eligibility Job Aid. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

When an Employment Authorization Document (EAD) is required:

- If the EAD Form I-766 will expire within one (1) year and a prior history of residency status renewals exists, it may be assumed that continuation will be granted.
- If the EAD Form I-766 will expire within one (1) year and there are no prior renewals, the likelihood of renewal based on information from the USCIS must be substantiated.

When an EAD Form I-766 is not required, an acceptable, unexpired Visa must be provided. In the event the Visa is expired or not required per the classification, an acceptable I-797 Notice of Action/Notice of Approval form with valid extension dates and the I-94 Arrival/Departure Receipt must be provided.

2.12 Ineligible Borrowers

The following parties are ineligible:

- Applicants possessing diplomatic immunity (reference Visa); or
- Any material parties (company or individual) to the transaction identified on an Exclusionary List, including HUD's Limited Denial of Participation (LDP) and General Services Administrative (GSA); or
- A Foreign National; or
- Borrower(s) less than 18 years old; or
- Borrower(s) without a valid Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN); or
- Vesting in an Entity Name.

2.13 Ineligible States & Territories

- American Samoa
- Guam
- Hawaii
- New York (ineligible for Retail & Wholesale)
- Northern Mariana Islands
- Puerto Rico
- U.S. Virgin Islands

CHAPTER 3. LOAN ELIGIBILITY

This section outlines loan eligibility requirements that apply to Trailblazer Jumbo.

3.1 Consolidation, Extension, & Modification Agreement (CEMA)

Refinance transactions for properties located in the state of New York may be structured as a Consolidation, Extension, and Modification Agreement (CEMA) transaction. The most current version of Fannie Mae/Freddie Mac Uniform Instrument (Form 3172) must be used. The following documentation must be provided:

- NY Consolidation, Extension and Modification Agreement (Form 3172)
- Original Note(s) – Original documents signed by the borrower
- Gap Note and Gap Mortgage, if applicable
- Consolidated Note – Original documents signed by the borrower
- Exhibit A – Listing of all Notes & Mortgages being consolidated, extended and modified
- Exhibit B – Legal description of the subject property
- Exhibit C – Copy of the consolidated Notes (and addenda where applicable)
- Exhibit D – Copy of the consolidated Mortgage (and riders where applicable)

All documentation listed above must be sent to the custodian, while copies of the above documents must be submitted to FGMC in the closed loan package. Lost Note Affidavits are not an acceptable substitute for any of the required documents. If original documentation cannot be provided per above, then a CEMA is not eligible for purchase.

CEMA is acceptable for the Correspondent channel only.

3.2 Interested Party Contributions (IPCs)

Interested Party Contributions are limited to:

- Primary Residence = 6%
- Second Home = 3%
- Investment Property = 2%

Interested Party Contributions may not be used to:

- Make the borrower’s down payment;
- Meet financial reserve requirements; or

- Meet the minimum borrower contribution requirements.

3.3 Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property.

- Non-arm's length transactions are allowed for the purchase of existing primary residence only; the file must include:
  - Signed and dated letter of explanation (LOE) from borrower stating relationship to seller and reason for the purchase; and
  - Appraiser to be advised of non-arm's relationship; and
  - Cancelled checks for Earnest Money Deposit (EMD).
  - Family-to-family sales require a 12 month mortgage history for the seller's mortgage (bank statements showing the monies transferred from the borrower(s) account into the seller(s) account is acceptable). Payment history must support loan is current with no derogatory history in the past 12 months.

When the subject property is considered a "flip", non-arm's length transactions are not eligible.

- For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, financing is limited to a primary residence only.
- Mortgage loans on newly constructed homes secured by a second home where there is a non-arm's length relationship are prohibited.
- When a tenant is buying from landlord/seller, a Verification of Rent (VOR) from a third-party management company is acceptable. If there is no third-party management company, provide the most recent 12 months cancelled rent checks or 12 months bank statements (or whatever shorter time period the borrower has been renting).

3.4 Texas Equity Loans

The Texas Equity 50(a)(6) loans, or Texas 50(a)(4), a provision of Article XVI, Section 50(a)(6) is not eligible under the Trailblazer Jumbo product.

3.5 Third Party Verifications

In situations where third party documentation (e.g. VOD, VOE, VOR) does not have a clear fax or URL identifier that can be directly connected with the employer, institution, etc., the Processor will need to authenticate the document by phone with the person(s) that executed the verification(s) and document with a processor's certification in Encompass. The processor certification should be placed in the eFolder of the corresponding verification (e.g. the processor's certification validating a VOD would be placed in the asset folder).

3.6 Ineligible Transactions

The following transactions are ineligible:

- Blanket loans
- Bridge loans
- Builder / Seller Bailout Plans
- Buydowns
- Escrows for Work Completion
- Foreclosure Bailouts
- Lease Purchase Option
- Model Home Lease Back
- Multiple property payment skimming
- Property / Land Flip Transactions
- Straw Borrowers / Straw Buyer

CHAPTER 4. HIGHER PRICED MORTGAGE LOAN (HPML)

Higher Priced Mortgage Loans are ineligible for the Trailblazer Jumbo product.

CHAPTER 5. PRODUCT REQUIREMENTS

This section outlines product requirements that apply to the Trailblazer Jumbo program.

5.1 Age of Documentation

Unless otherwise noted, all loan documentation must be dated within 90 days of the Note Date.

5.2 Assumability

The Trailblazer Jumbo product is not assumable.

5.3 Impound/Escrow Accounts

FGMC will follow state-specific requirements including but not limited to Nevada and North Dakota, which do not permit a cushion for escrows. The state of Montana requires that the escrow cushion is one (1) month.

The following defines the premiums that will be paid from the Escrow/Impound account:

- Real estate taxes
- Hazard insurance premiums
- Flood insurance premiums

Homeowner's Association (HOA) dues are considered in the qualifying payment, however they are not included in the Escrow/Impound account.

5.3.1 Escrow Waiver

- Upon request from the borrower, FGMC may waive the escrow/impound account if the loan to value (LTV) is 80% or less (90% in California), but the standard escrow provision must remain in the mortgage loan documents. Partial waivers are acceptable. A past due balance on the property tax or homeowner's insurance bill must be brought current before an escrow waiver can be accepted.
- In the state of California, when taxes and insurance are not required to be escrowed, all borrowers must execute the CA Loan Impound Disclosure and Waiver (CAIMPJ) prior to closing. This document will establish the borrower(s) preference for the escrow account.
- Prior to approving an escrow waiver request, the underwriter must ensure that escrow waivers are not based solely on the LTV ratio of a loan, but also on whether the borrower has the financial ability to handle the lump sum payments of taxes, insurance, and other items described above. As such, all loans are qualified with the inclusion of taxes, insurance, and HOA dues (if applicable), regardless of escrows being waived.

- Waivers for the escrow of flood insurance are not permitted unless the property is a Condo and the HOA holds the master policy.

5.4 Interest Credits

FGMC will allow interest credits at closing through the seventh calendar day of the month in which the mortgage loan is closed.

5.5 Loan Limit Maximum

Maximum $3,000,000 loan amount. See Eligibility Table for LTV restrictions.

5.6 Loan Limit Minimum

The minimum loan amount for Trailblazer Jumbo is $1 over the Federal Housing Finance Agency (FHFA) General Conforming Loan Limit.

5.7 Minimum FICO

The minimum FICO for any borrower is 660.

5.8 Mortgage Credit Certificates

Mortgage Credit Certificates (MCC) are not acceptable.

5.9 Prepayment Penalty

A prepayment penalty is not allowed.

CHAPTER 6. PROPERTY ELIGIBILITY

This section outlines property eligibility requirements that apply to Trailblazer Jumbo.

6.1 Eligible Property Types

The following property types are eligible under the Trailblazer Jumbo program:

- Single Family Residence (SFR)
- 2-4 Unit
- Townhome
- Condominium

Reference the Eligibility Table for qualifying criteria.

6.2 Acreage Limitations

Maximum acreage is ten; no truncating allowed.

6.3 Disaster Area

If the subject property is located in a county where a FEMA Major Disaster Declaration with Individual Assistance has been issued, an acceptable property inspection is required prior to closing and/or purchasing the loan. This is also applicable to an area in which FGMC has identified a natural disaster.

6.3.1 Inspection Requirements

When a loan is discovered to be in a FEMA declared major disaster area eligible for Individual Assistance, and the appraisal was completed prior to the disaster, FGMC requires an inspection of the property to ensure the property has not sustained any damage.

The damage inspection must be performed after the declared disaster Incident Period Start Date.

- For a flood-related disaster, an interior/exterior inspection is required.
- If the appraisal is dated after the Incident Period Start Date but before the Incident Period End Date (or if an end date is not available), an external inspection is required.
- If the effective date of the appraisal is on or after the Incident Period End Date, a separate damage inspection report is not necessary.
- Inspection reports must include photographs of the subject property and street view.
- An exterior inspection utilizing:

- Appraisal Update and/or Completion Report (Fannie Mae 1004D/Freddie Mac 442); or
- Catastrophic Disaster Area Inspection Report (CDAIR); or
- Certified Home Inspection; or
- Desktop Underwriter Property Inspection Report (Fannie Mae 2075).

6.3.2 Inspection Report Results

If the inspection supports that the property is habitable, sound, and the property does not otherwise evidence any health, safety or soundness issues, then the original collateral valuation can be used. If a property requires minor (cosmetic) repairs, the property may be acceptable at the sole discretion of FGMC management.

If the inspection notes that the property is uninhabitable, unsound, or that the property exhibits damage affecting the health, safety or soundness, then a new interior and exterior appraisal must be obtained showing that:

- All damage has been repaired prior to funding/purchase by FGMC, and
- The property is habitable, sound and the property value is supported.

6.4 Construction to Perm

The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

When a refinance transaction is used, the borrower must have held legal title to the lot before he/she applied for the construction financing and must be named as the borrower for the construction loan.

A construction-to-permanent transaction may be closed as a purchase or no cash-out refinance. All construction work must be complete.

For lots owned for no less than 12 months from the application date of the subject transaction, the LTV is based on the current appraised value.

For lots owned less than 12 months from the application date of the subject transaction, the LTV is based on the lesser of the current appraised value of the property or the total acquisition cost (sum of construction cost and purchase price of lot).

The following are required for construction to perm properties:

- Certificate of Occupancy or equivalent from local authority.
- Appraisal Update and/or Completion Report (FNMA Form 1004D) with interior and exterior photos reflecting completion, if applicable.

- Third-party verification of proposed property taxes including improvements. If it cannot be obtained via a reliable source, calculate property taxes using 1.5% of the sales price.
  - 1.25% must be used for properties located in CA.

6.5 Land Contracts

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered a no cash-out refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply for a purchase and a no cash-out refinance transaction:

- Primary residence only; and
- Copy of fully executed land contract and payoff(s) to be obtained; and
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments; and
- Liens on title must be paid in full and reflected on Closing Disclosure (CD); and
- Cash-out and non-arm's length transactions not eligible.
- If the land contract was executed less than 12 months ago:
  - The borrower's previous housing payment history must be verified to satisfy no less than a 12 month period; and
  - The lesser of the purchase price or the current appraised value must be used to determine LTV.
    - The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.

6.6 Leasehold Properties

The term of the leasehold estate must run for at least five (5) years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower's name.

The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or, on payment of, a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sub lessee.

The lease must provide for the borrower to retain voting rights in any homeowners' association.

The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those being paid on the improvements.

The lease must be valid, in good standing, and in full force and effect in all respects.

The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.

The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.

The lease must provide lenders with:

- The right to receive a minimum of 30 days' notice of any default by the borrower; and
- The option to either cure the default or take over the borrower's rights under the lease.

6.7 Maximum Financed Properties

The maximum number of financed properties owned by all borrower(s) is four (4) including the subject property.

The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage:

- Properties owned free and clear
- Commercial real estate
- Multifamily property consisting of more than four (4) units
- Ownership in a timeshare
- Ownership of a vacant lot (residential or commercial)
- Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home)

See Reserve Requirements for required reserves.

6.8 Minimum Gross Living Area (GLA)

Property Type	Minimum Gross Living Area (GLA)
Single Family Residence	700 square feet

Condominium / Townhome	600 square feet
2-4 Unit	600 square feet per unit

6.9 Private Roads

Properties on private roads are acceptable subject to the following:

- The title company must affirmatively insure access to the subject property from a public street.
- An adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement must include provisions for the 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 which in most cases must be perpetual and binding on any future owners. 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. Any maintenance costs are to be included in the Borrower's housing ratios.
- If the private road is covered by a Homeowners Association and included as part of a condominium or Planned Unit Development, then the following does not apply.

6.10 Property Flipping

For principal residences, when the price reflected in the buyer's purchase agreement is more than a certain amount higher than the seller's acquisition price, the rule requires a second appraisal.

These amounts are:

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

To calculate the number of days, compare the acquisition date of when the seller became the legal owner of the property to the date of the executed purchase agreement.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
- The property was marketed openly and fairly, through a multiple listing service, auction, a documented for sale by owner offering or developer marketing.
- Contract assignments to another buyer are not permitted.

6.11 Quality of Construction and Condition

Under this program, no C5, C6, Q5 or Q6 ratings are permitted. Subject property must be in “average” or “better” condition.

For C4 or Q4 ratings, the appraiser must provide detailed narrative regarding the subject property market acceptance.

6.12 Resale 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, 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- or moderate income or on the basis of age (senior communities must comply with applicable laws).

Resale restrictions may also restrict the resale price of the property to ensure it is available to future low- 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.

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.

Eligible properties for all deed restrictions include one- and two-unit properties, PUDs and condominiums.

6.12.1 Affordability-Related Deed Restrictions

An income-related deed restriction is limited to an owner-occupied property and must meet the following requirements:

- The subsidy provider must have established procedures for screening and processing applicants;
- The borrower must provide evidence of approval through a subsidy provider;
- Eligible subsidy providers, or sponsors, of resale restrictions are:
  - Churches;
  - Employers;
  - Entities that are otherwise administering government sponsored, federal, state, or local subsidy programs;
  - Municipalities (including state, county, or local housing agencies);

- Nonprofit organizations; or
- Universities.

6.12.2 Age-Related Deed Restrictions

Age-related deed restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrowing household member or a renter in the case of investment property. Second homes must be one-unit properties.

6.12.3 Duration of Resale Restrictions

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/Broker/Client 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.

6.12.4 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 Lender/Broker/Client 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 comparables 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.

6.13 Rural Properties

A property indicated by the appraisal as rural must comply with the following criteria:

- The primary use must be residential.
- The lot size and acreage must be typical for the area and similar to the surrounding properties.
- The maximum acreage allowed is 10 acres, which includes road frontage and the subject property.
- The present use must be the "highest and best use" for the subject property.
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparables.
- The subject property cannot be subject to any idle acreage tax benefit or other tax incentive program.
- The property must not be:
  - Agricultural; or
  - Providing a source of income to the Borrower or for the subject loan.

6.14 Solar Panels

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

Requirements for properties with solar panels that are leased or covered by a Power Purchase Agreement:

- 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 monthly lease payment must be included in the debt to income (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.
- Lease and/or Power Purchase Agreement cannot take first lien precedence in all matters of title.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced can be excluded from the debt to income (DTI) ratio.

The lease or 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 on which the panels are attached.

As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; 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.

6.15 Land Trust

Land Trust(s) are not eligible.

6.16 Escrow Holdbacks

Escrow Holdbacks are not eligible.

6.17 Ineligible Property Types

- A project that includes registration services and offer rentals of units on a daily, weekly or monthly basis
- Agricultural properties including farms, ranches and orchards
- Assisted living facilities
- Berm Homes
- Boarding houses or bed/breakfast properties
- Condotel
- Commercial properties
- Co-op/timeshare hotels
- Cooperative share loan
- Dome or geodesic homes
- Group homes
- Homes on Indian reservations

- Houseboats
- Log Homes
- Manufactured or Mobile homes
- Methamphetamine homes unless certified safe for habitation
- Mixed Use properties
- Non-Warrantable Condo
- Private clubs
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Properties with an individual water purification system
- Properties with zoning violations
- Sinkhole homes
- Tiny homes
- Transient housing
- Unique properties
- Vacant land or land development properties

Any property type not addressed above can be given consideration so long as the property type is common in the market, the property is marketable and there are similar comps to support.

CHAPTER 7. CONDOMINIUM

Warrantable condominiums are allowed with a maximum 85% LTV.

Non-Warrantable condominiums are not eligible.

7.1 Standard Condominium Requirements

The following requirements are uniform for condominiums and non-warrantable condominiums.

- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 600 square feet of living space.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws.
- The homeowners' association (HOA) must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified by the underwriter. The solution must be deemed acceptable.
- Projects with pending or threatened litigation surrounding the safety, structural soundness, functional use or habitability are not acceptable.
- The project must be located on one (1) contiguous parcel of land.
    - The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.
- Manufactured Homes are not acceptable as the subject property, or within the condo project.
- If a condo project is approved by FHA, PERS or VA, project review and approval is not required.

7.2 Established Project Requirements

Project and related facilities that are complete and not subject to additional phasing are considered established.

- Established Projects must meet Fannie Mae requirements and a limited review of the condominium must be performed; FHA, PERS and VA approved projects are acceptable.

- The following requirements must be met with respect to unit ownership:
  - At least 90% of the total units in the project have been conveyed to the unit purchasers; or
  - If the project is a 2 – 4 unit project, all units in the project have been conveyed to the unit purchasers; and
  - Unit owners control the HOA.
- All units, common elements and amenities must be complete.
- Owner-Occupancy Requirements:
  - Primary residences and second homes: no owner-occupancy requirements.
  - Investment properties: at least 50% of the units in project (including 2 – 4 unit projects comprised of 2 or 4 units) are occupied as primary residences or second homes.
  - For 2 – 4 unit projects comprised of 3 units, all but one (1) unit are occupied as primary residences or second homes.

7.3 Budget

A budget must be obtained for a Full Review. The project budget must be reviewed to determine that it is consistent with the nature of the project and appropriate assessments are established to manage the project:

- Appropriate allocations for line items pertinent to the type and status of the project; and
- There must be adequate funding for insurance deductible amounts; and
- At least 10% of the budget provides funding for replacement reserves for capital expenditures, deferred maintenance based on the project's age, estimated remaining life, and replacement cost of major common elements.
  - A reserve study may be used instead of calculating the replacement reserves of 10%, provided the above requirements are met.

7.4 Gut / Non-Gut Project Requirements

If the project is a conversion created by conversion of the building(s), the project must meet the following for the Seller's review and determination of project eligibility:

- Non-Gut Rehabilitation of a prior use of the building that was legally created within the past five (5) years; and
- The engineer's report (or functionally equivalent documentation for jurisdictions not requiring an engineer's report) must state that the project is structurally sound; and

- The condition and remaining useful life of the major project components are sufficient to meet the residential needs of the project; and
- There is no evidence that any of these conditions have not been met.
    - Major components include the roof, elevators and mechanical systems such as HVAC, plumbing and electricity.
- All rehabilitation work involved in the conversion (Non-Gut Rehabilitation and Gut Rehabilitation) must be completed in a professional manner.

A review of the engineer's report (or functional equivalent documentation) is not required for conversions involving a Gut Rehabilitation, and a Non-Gut Rehabilitation if more than five (5) years have elapsed since the legal creation of the project.

7.5 New Project Documentation

Project documents must state, or applicable State law must provide, that any action to terminate the legal status of the project or to use insurance proceeds for any purpose other than to rebuild, must be agreed to by first-lien mortgagees that represent at least 51% of the unit votes (one (1) vote for each first-lien mortgage owned).

The project documents may allow implied approval to be assumed when the then current mortgagee of record fails to submit a response to any written proposal for an amendment within 60 days after the then current mortgagee of record actually receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a "return receipt" requested.

Project documents, applicable State law, or any applicable insurance policy must provide the mortgagee and guarantor of the mortgage the right to timely written notice of:

- Any condemnation or casualty loss affecting a material portion of project, or unit securing the mortgage.
- Any 60 day delinquency in payment of assessments or charges owed by the unit owner.
- A lapse, cancellation or material reduction of any insurance policy maintained by the HOA.
- Any proposed action requiring the consent of a specified percentage of the mortgages

There must be no provisions in the project documents that give a unit owner or other party priority over any rights of the first mortgagee in the case of payment to the unit owner of proceeds from termination or, insurance proceeds, or condemnation awards for losses to or a taking of units and/or common elements.

If a Seller relies on a project reserve study for New Condominium Projects – it must comply with the following requirements:

- The reserve study:
  - Must include an inventory of major components of the project, financial analysis and evaluation of current reserve fund adequacy and proposed annual reserve funding plan.
    - Financial analysis must validate the project has appropriately allocated the recommended reserve funds for sufficient protection comparable to Freddie Mac's standard budget requirements for replacement reserves.
    - Funding plan detailing total costs identified for replacement components must meet or exceed the study's recommendation and conclusion.
  - Must be dated within 36 months of determining project eligibility.
  - Must be prepared by an independent expert skilled in performing studies such as a reserve study professional, construction engineer, certified public accountant or any professional with demonstrated experience and knowledge in completing reserve studies.
  - Must meet or exceed requirements set forth in any applicable state statutes.
  - Must comment favorably on the project's age, estimated remaining life, structural integrity and the replacement of major components.

7.6 New Project Requirements

All condominiums located in a new project must meet the following minimum requirements:

- Subject legal phase and prior legal phases are substantially complete (all units in the subject building are complete subject to the selection of buyer preference items).
- For 2 – 4 unit projects, units are complete and not subject to additional phasing.
- Owner-occupancy requirements:
  - Minimum 50% of the total units in the project must have been conveyed or under contract to occupants as their primary residences or second homes.
  - All but one (1) unit in a 2 – 4 unit project must have been conveyed or under contract to occupants as their primary residences or second homes.
- Homeowner Association (HOA) assessments must begin once the developer has ceased to pay operating expenses attributable to the project irrespective of units sold.
  - Developer is responsible for the assessment attributable to the unsold units.
- Budget is consistent with the nature of the project and appropriate assessment must be established to manage the project.
  - There are appropriate allocations for line items pertinent to the type and status of the project.

- If the project was recently converted, the developer must have initially funded a working capital fund, through contributions made by developer and/or purchasers of the condominium units, in an amount consistent with the estimated remaining life of the common elements.
- There must be adequate funding for insurance deductible amounts.
- At least 10% of the operating budget provides funding for replacement reserves, for capital expenditures and deferred maintenance based on the project's age, estimated remaining life, and replacement cost of major common elements.
- If the budget does not provide a replacement reserve of at least 10%, the Lender/Underwriter may rely on either a reserve study or contributions to a working capital fund.
- Delinquent assessments:
  - No more than 15% of the total number of units in a project are 60 or more days delinquent on the payment of their HOA assessments; and
  - If a 2 – 4 unit, none of the units are 60 or more days delinquent.
- Project must be created and exist in full compliance with applicable State law, the requirements of the jurisdiction in which the project is located, and all other applicable laws and regulations governing the creation of the project.
- Limitations on ability to sell/right of first refusal:
  - Right of first refusal in the project documents does not adversely impact the right of the mortgagee or its assignee to:
    - Foreclose or take title to a unit pursuant to the remedies in the mortgage; or
    - Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; or
    - Sell or lease a unit acquired by the mortgagee or its assignee.
- Project documents must state, or applicable State law must provide, that amendments of a material adverse nature to first-lien mortgages be agreed to by mortgagees that represent at least 51% of the unit votes (one (1) vote for each first-lien mortgage owned).

A full condominium review is required; FHA, PERS and VA approved projects are acceptable.

7.7 Site Condominiums

A site condominium is not subject to the condominium review process.

7.8 Ineligible Projects

- A project subject to the rules and regulations of the U.S. Securities Exchange Commission.
- Project with multi-dwelling units:
  - Owner holds a single deed evidencing ownership of more than one (1) dwelling unit.
- Tenancy-in-common apartment project:
  - Owned by several owners as tenants-in-common or by a homeowner's association (HOA); or
  - Individuals have an undivided interest in the residential apartment building (including the units) and land on which the building is located and may or may not have the right of exclusive occupancy of a specific unit in the building.
- Timeshare project or project with segmented ownership.
- Houseboat project.
- Project that is a legal nonconforming use.
  - In the event of partial or full destruction, the jurisdiction in which the project is located does not allow the rebuilding of the improvements to current density.
- New project sold with excessive seller contributions; reference the Interested Party Contributions section of this Guide.
- Continuing Care Retirement Community (CCRC) or Life Care Facilities.
- Manufactured home projects.

CHAPTER 8. APPRAISAL REQUIREMENTS

Trailblazer Jumbo requires a Uniform Residential Appraisal Report (URAR), complete with interior and exterior inspections. All approved appraisers are required by the URAR to certify that they did not base, in any capacity, the analysis and/or valuation of the appraisal report on the race, color, religion, sex, age, marital or familial statuses, handicap, or national origin of either the potential owners/occupants of the subject property or the present owners/occupants of the property or properties in the comparable area/MSA of the subject property, or on any other basis prohibited by law.

8.1 Appraisal Documentation

An appraisal that was completed for an Agency product (conventional or government) is acceptable provided the appraisal was prepared using one of the following appraisal report forms:

- Uniform Residential Appraisal Form (FNMA Form 1004/FHLMC 70)
- Small Residential Income Property Appraisal Report (FNMA Form 1025/FHLMC 72)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC 465)
- Single Family Comparable Rent Schedule for all 1 unit investment properties (FNMA Form 1007/FHLMC 1000)
- Operating Income Statement for 2-4 unit investment properties (FNMA Form 216/FHLMC 998)
- Appraisal Update and/or Completion Report (FNMA Form 1004D/FHLMC 442)

8.1.1 Expiration

The URAR is valid for a period of 120 days, based on the inspection date of the appraisal report.

8.2 Appraisal Review Process

The collateral review process is multifaceted according to loan characteristics to ensure the collateral values remain closely calibrated with the market. In addition to the appraisal report, the following appraisal review process is required:

- All appraisals are required to be submitted to the Uniform Collateral Data Portal (UCDP) and must receive a “successful” submission status. A Submission Summary Report (SSR) must be provided for each of the following:
    - Fannie Mae Collateral Underwriter (CU); and
    - Freddie Mac Loan Collateral Advisor (LCA).
- The SSR Last Submission Date must be dated on or after the appraisal signature date.

- If revisions or updates of the appraisal are obtained, the risk scores from subsequent resubmissions of the appraisal report to UDCP must be used.

8.2.1 Agency Risk Score

- For loan amounts ≤ $1,500,000 with both SSR Risk scores ≤ 2.5, no Desktop Appraisal Review is required.
  - The SSR Last Submission Date must be dated on or after the appraisal signature date.
  - If revisions or updates of the appraisal are obtained, the risk scores from subsequent resubmissions of the appraisal report to UDCP must be used.
- For loan amounts > $1,500,000, reference the Second Appraisal requirements.

8.2.2 Desktop Appraisal Review

A Desktop Appraisal Review is required when a loan amount ≤ $1,500,000 and:

- A no score is received from the submission to the UDCP for either CU or LCA as show on the SSR; or
- One of the risk scores from CU or LCA is > 2.5.
- For Correspondent clients, the Desktop Appraisal Review must be ordered by the client from one (1) of the following vendors using the product listed:
  - Clear Capital – Collateral Desktop Analysis (CDA);
  - Proteck – Appraisal Risk Review (ARR); or
  - Red Bell – Valuation Risk Review (VRR).
- For Retail and Wholesale channels the order will be placed by FGMC through Red Bell – Valuation Risk Review (VRR).
- The Desktop Appraisal Review must be completed for the appraisal report that was used in the lending decision.
- See Desktop Appraisal Review Tolerance for additional requirements.

8.2.3 Desktop Appraisal Review Tolerance

- A 10% tolerance from the value is determined by the appraisal is permitted for the Desktop Appraisal Review.
- If the review product value is:
  - No more than 10% below the appraised value, the original appraised value will be used.

  - More than 10% below the appraised value, the lower of the two (2) values must be used.
  - Above the appraised value, the original appraised value will be used.
- If the value cannot be determined by the Desktop Appraisal Review product, a second appraisal must be ordered.

8.2.4 Second Appraisal

A second appraisal (URAR) will be required when:

- Loan amount > $1,500,000; or
- The Desktop Appraisal Review does not establish a value.

The second appraisal must be obtained from a separate appraisal company than the first appraisal.

- When two (2) appraisals are obtained, the lower of the two (2) values must be used as the appraised value for the LTV calculation, unless the sales price is lower than both appraisals (in which case the sales price will be used to determine LTV).

8.2.5 Transferred Appraisal

Transferred appraisals are acceptable when the appraisal was ordered through an Appraisal Management Company (AMC) to ensure compliance with the Home Valuation Code of Conduct (HVCC) and Appraiser Independence Requirements (AIR). Evidence that an AMC was utilized must be included in the file.

- The appraisal transfer request must be made on behalf of the borrower(s) and must be transferred from one lender to another lender.
- When an appraisal is transferred, compliance with the above is required. The company to which the appraisal has been transferred may not request revisions or corrections to the appraisal. In the event of material deficiencies that render the appraisal invalid, a new appraisal will be required.

CHAPTER 9. ASSETS

This section outlines asset requirements that apply to the Trailblazer Jumbo program.

9.1 Asset Documentation

Assets to be used for down payment, closing costs, debt payoff, and reserves must be seasoned for 60 days (with the exception of cash back at closing). Statements used for asset documentation must be dated within 45 days of initial loan application. Assets must be verified with one (1) of the following:

- Most recent two (2) month account statements; or
- Most recent quarterly account statement, indicating opening and closing balances and reflecting a consecutive 60 days of activity; or
- Written Verification of Deposit (VOD) completed by financial institution must include the current and average balances for the most recent two (2) months.
  - Large disparities between the current and average balances will require additional verification and/or supporting documentation.
- Account statements must provide all the following information:
  - Borrower listed as account holder/owner; and
  - Account number; and
  - Statement date; and
  - Time period covered.

9.1.1 Assets Held in Foreign Accounts

All funds required for down payment, closing costs, and reserves in a foreign account must be seasoned for 60 days and held in an institution located in the borrower's country of origin or residency. Assets required for closing (including down payment and closing costs) must be transferred and seasoned in a U.S. depository institution for a minimum of 10 calendar days prior to closing. Additionally, the following must be verified and documented:

- Most recent two (2) months account statements; and
- Proof of transfer of the verified funds.

In lieu of two (2) months statements, the following is acceptable:

- A letter of reference on company letterhead from a verifiable banking institution which must include:
  - Contact information of the person signing the letter; and

- Letter must state the type of relationship with borrower, length of relationship, how accounts are held, and current balance.
- File must include sufficient information to identify the sender as the creator of the document (i.e. email address, URL identifier on document, etc.).

For assets held in foreign accounts the file must include evidence that the country of origin was reviewed against the Department of U.S. Treasury Sanctions list.

- Loans underwritten internally must be escalated to the BSA team.

Assets that are confirmed to be from an acceptable country:

- Can be used for reserves; and
- Must be converted to U.S. dollars using the current exchange rate; and
- The translation, if applicable must be signed and dated by a certified translator.

9.1.2 Bridge Loan

A bridge loan is a short-term secured loan, typically one (1) year or less, that is based on the equity in the borrower's current home. It is paid off when the current home is sold or closed. If the borrower obtains a bridge loan, the monthly payment for the bridge loan must be included in the debt unless the borrower can provide a copy of the executed sales contract for the property that is secured by the bridge loan.

9.1.3 Business Assets

For self-employed borrowers, business assets are an acceptable source of funds for down payment, closing costs, and reserves.

Additional requirements include:

- The most recent two (2) months of the business account statements; and
- Deposits must be typical for the borrower's business.

The income source will determine the path for analyzing business assets:

- Full income documentation:
  - The Client/Underwriter must perform a business cash flow analysis to confirm that the withdrawal will not have a negative impact on the business; and
  - FNMA Form 1084 or similar cash flow analysis form must be utilized to show the business can sustain and support the withdrawal or liquidation of funds.

9.1.4 Crypto-Currency

Crypto-currency is not an acceptable asset.

9.1.5 Gift Funds

- Gift funds are allowed with minimum 5% down payment from the borrower's own seasoned funds.
- Gift funds cannot be used toward reserves.

9.1.5.1 Gift Documentation

Provide a fully completed gift letter dated on or before the date of transfer from an acceptable donor indicating:

- Donor's relationship to borrower(s);
- Donor's address, phone number and dollar amount of gift; and
- Certification it is an outright gift with no repayment required.

Documentation must also include one (1) of the following:

- Copy of gift check and borrower's deposit slip; or
- Donor's withdrawal slip and the borrower's deposit slip; or
- Donor's check to closing agent; or
- The Closing Disclosure evidencing receipt of the donor's check or wire transfer along with a copy of the check or proof of receipt of the wire transfer.

9.1.5.2 Gift of Equity

Gifts of equity are permissible on primary residence transactions only. The borrower must document six (6) months reserves of their own funds in addition to the product reserve requirement.

9.1.5.3 Gift Donor

A gift can be provided by:

- Relative defined as a borrower's:
    - Spouse, child, or other dependent; or
    - Any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
    - Fiancé, fiancée, or domestic partner.

A gift is not permitted if the donor is, or has any affiliation with the:

- Builder; or

- Developer; or
- Real estate agent; or
- Any other interested party to the transaction.

9.1.6 Grants

Borrowers utilizing grant funds require documentation. Examples of acceptable documentation include:

- Copies of grant program materials, award letters or terms and conditions provided to the borrower.

Documentation must verify:

- Establish that the funds were provided by an Agency; and
- Establish that the organization has an established gift or grant program; and
- Establish that the funds are a gift or grant that does not have to be repaid; and
- Provide evidence that the funds were received by the borrower, or by the seller on the borrower's behalf; and
- Identify the donor's mailing address.

9.1.7 Life Insurance Policy

Cash value of a vested life insurance policy may be used for reserves only. When used for reserves, the cash value must be documented but does not need to be liquidated or received by the borrower.

9.1.8 Rent Credits

To utilize net rent credit generated from the subject property for the down payment, the following is required:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months:
  - Clearly stating the monthly rental amount; and
  - Specifying the terms of the lease; and
- Copies of the borrower's canceled checks, money order receipts, or bank statements for the last 12 months evidencing rental payments; and
- Market rent as determined by the subject property appraisal:
  - A copy of the rental/purchase agreement; and
  - Evidence of rental payments; and
  - Appraiser's determination of the market rent for the subject property.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser, on FNMA Form 1007/FHLMC 1000 (Market Rent Analysis).

9.1.9 Sale of Real Property

The sale of real property requires a fully executed Closing Disclosure (CD) showing the proceeds to the borrower. If the sale of property will be closing simultaneously with the subject transaction, provide fully executed sales contract prior to final approval and fully executed CD at closing.

9.1.10 Spousal Accounts

Spousal accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to 60-day seasoning requirements. Details regarding spousal accounts:

- Funds from the sale of real estate are acceptable with a fully executed Closing Disclosure (CD) dated within 60 days of the subject property Note Date.
- Spousal accounts are considered as borrower own funds.
- Accounts held solely in the name of a non-borrowing spouse may not be used to meet the reserve requirements.

9.1.11 Trust Funds

Trust funds require a copy of the trust agreement or a signed statement from the trustee or trust manager that documents the following:

- Identifies the borrower as the beneficiary; and
- Confirms the borrower has access to all or a certain specified amount of the funds; and
- Confirms the trust has sufficient assets to disburse funds needed by the borrower.

When trust funds are needed for closing, evidence of receipt of the disbursed funds from the trust is required.

9.1.12 Stocks, Bonds, Mutual Funds

100% of stocks, bonds, or mutual fund accounts may be considered in the calculation of assets for closing and reserves.

9.1.13 Non-Vested or Restricted Stock, Bonds, and Mutual Funds

Non-vested accounts, bonds and mutual funds are not eligible for use as down payment or reserves.

Restricted stocks (RSU) are eligible for use as a down payment or reserves.

9.1.14 Vested Retirement Account Funds

Up to 60% can be utilized for closing and/or reserves. Must verify the borrower/account holder is permitted to make withdrawals and severance from the borrower's current employment is not required.

Up to 70% may be utilized if the respective borrower is 59.5 years or older.

9.2 Down Payment

On a purchase transaction, a minimum of five percent (5%) of the purchase price must come from the borrower's own funds. If earnest money (EMD) is needed to meet the borrower's minimum contribution requirement, verification that the funds are from an acceptable source must be documented. Satisfactory documentation includes the following:

- Copy of the borrower's canceled check; or
- Certification from the deposit holder acknowledging receipt of funds; or
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.

9.3 Funds Required for Closing

Depending on the asset being leveraged, the documentation to support funds or cash to close may differ. Refer to the following for guidance:

- Checking and savings accounts require:
  - Two (2) month bank statements that include all pages; or
  - Fully executed VOD.
- Assets that are invested in stocks, bonds, mutual funds, U.S. Government Securities, or other securities that will be leveraged for closing require:
  - Two (2) month statements including all pages; and
  - Evidence of liquidation is required unless the combined value of the asset(s) is at least 20% greater than the amount from the assets that would be necessary for closing.
- Securities require:
  - Two (2) month statements including all pages; and
  - Verification the stock is owned by the borrower; and
  - Third-party evidence of the current stock/securities pricing.
- Retirement accounts require:

- Two (2) month statements including all pages; and
- Verification the borrower/account holder is permitted to make withdrawals and that severance from the borrower's current employment is not required; and
- Evidence of liquidation is required unless the combined value of the asset(s) is at least 20% greater than the amount from the assets that would be necessary for closing.

9.4 Large Deposits

Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.

- If the large deposit is required for the borrower to meet the down payment, funds to close, closing costs, or reserves to qualify for the loan, then funds must be verified through a letter of explanation and supporting documentation.
- If the large deposit is not required for down payment, funds to close, closing costs, or reserves, then the Underwriter may reduce the amount of the asset by the deposit amount and use the remaining balance for qualification purposes.

9.5 Reserve Requirements

- Business funds are acceptable for reserves.
- Proceeds from a cash-out refinance transaction may be used for reserves after two (2) months' verified from borrower(s) own funds.
- Proceeds from a 1031 Exchange and/or gift funds cannot be used toward reserves.
- Reserve requirements are based on each individual transaction and are not cumulative when multiple applications are submitted.

9.5.1 Requirements for Each "Financed Property Owned"

Each additional "Financed Property Owned" (excluding subject property) requires six (6) additional months of reserves, using the qualifying payment of the subject property Principal, Interest, Taxes, Insurance, and Association Dues (PITIA).

The occupying borrower(s) must make at least three percent (3%) of the down payment from their own funds.

9.5.2 Requirements for Subject Property

The requirements below detail the maximum reserves, and are in addition to any reserves required for additional financed properties owned.

- Six (6) months reserves required for:
    - Primary residence = LTV/CLTV ≤ 80%
- Nine (9) months reserves required for:
    - Primary Residence = LTV/CLTV > 80% - ≤ 85%
- 12 months reserves required for:
    - Primary Residence = LTV/CLTV > 85%
    - 2 – 4 Unit property
    - Second home
    - Investment property
    - Loan amount > $1,000,000

9.6 Ineligible Assets

The following assets are not permitted under Trailblazer Jumbo:

- 1031 Exchange Funds
- Cash on hand
- Down payment assistance programs
- Gift or grant funds which must be repaid
- Section 8 Voucher Assistance
- Sweat equity
- Unsecured loans or cash advances

CHAPTER 10. CREDIT

This section outlines credit requirements that apply to the Trailblazer Jumbo program.

10.1 Payment History Requirements

- Mortgage debt must be current at the time of application and remain paid as agreed through the date of closing.
- Housing history must reflect:
    - 0x30x6
    - 1x30x24
- The housing payment history requirements apply to the borrower(s) primary residence, and to any mortgage loans on a second home or investment property.

10.2 Credit Report Requirements

Credit reports must meet the following requirements:

- The credit report must include credit activity, credit scores, and public record information for each locality in which the borrower has resided during the most recent two (2) year period.
- The report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act (FCRA). Although the FCRA currently specifies that credit information is not considered obsolete until after seven (7) years, and bankruptcy information after 10 years, FGMC requires only a seven (7) year history to be reviewed for all credit and public record information.
- The report must be an original report, with no erasures, white-outs, or alterations. An automated credit report or one (1) that is transmitted by fax is 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.
- Any frozen repositories will have to be released and the credit re-pulled without the freeze.
- All fraud alerts must be addressed and cleared.

10.2.1 Credit Inquiries

Credit inquiries within the past 90 days must be explained and no new debt obtained unless included in the debt ratio.

10.2.2 Undisclosed Debt Monitoring

A gap credit report or undisclosed debt monitoring report is required to evidence no additional debt was obtained throughout the origination process.

- For loans originated by FGMC, the debt monitoring must be performed through the Note Date.
- For loans originated outside of FGMC, the debt monitoring must be performed within ten (10) days of the Note Date.

10.2.3 Fraud Check

Customer Identification Procedures (CIP) must be followed to ensure the true identity of each borrower has been documented.

All loans must include a third-party fraud detection report for each borrower (CoreLogic LoanSafe Fraud Manager or equivalent). High and medium level alerts on the report must be addressed by the Underwriter.

10.2.4 Minimum FICO Score

The minimum FICO for any and all borrower(s) is 660.

10.2.5 Minimum FICO Calculation

An individual borrower's representative credit score is determined by the following:

- If two (2) credit bureau scores are reported, the representative credit score will be the lower score.
- If three (3) credit bureau scores are reported, the representative credit score will be the middle of the three (3).
- A minimum of two (2) FICO scores are required.

When there is more than one (1) borrower, the lowest of all borrowers' representative credit scores will be used.

10.3 Housing and Mortgage Obligations

Housing and mortgage debt must be current at the time of application and remain paid as agreed through the date of closing.

At least one Borrower must have a 24 month Rental or Mortgage History:

- Borrowers who have been living "rent free" and do not have a 24 month Rental or Mortgage history are not eligible
- Borrowers who have been living "rent free" temporarily, but can document a 24 month Rental or Mortgage history are eligible (ex. Borrower sold his or her home and moved in with family temporarily until closing on a new property)
- Borrowers who have been living "rent free" but have a 24 month satisfactory mortgage history on an a second or investment home are eligible
- Borrowers who own a house free and clear meet the Mortgage Payment History requirements provided there is documentation that the taxes and insurance have been paid on time for the last 24 months

For housing and mortgage obligations that are not on the credit report:

- Must be verified with:
  - An institutional Verification of Mortgage (VOM); or
  - Cancelled checks; or
  - Bank statements
- A Verification of Rent (VOR) is acceptable if completed by a property management firm.
- Private verifications (VOM or VOR) are not acceptable.

10.3.1 Housing Payment History

Housing payment history (rental or mortgage), including subordinate liens, is acceptable subject to the following criteria:

- 0x30x6
- 1x30x24

The housing payment history requirements apply to the borrower(s) primary residence, and to any mortgage loans on a second home or investment property.

10.3.2 Current Principal Residence Pending Sale

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

However, FGMC will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

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

10.4 Installment Debt

All installment debt that is not secured by a financial asset (including student loans, automobile loans, and unsecured home equity loans) must be considered part of the borrower's recurring monthly debt obligations.

If the obligation will conclude within 10 months, the debt can be excluded if the monthly payment is no greater than 5% of the obligor's qualifying income.

Installment loans cannot be paid down to 10 or fewer remaining monthly payments to qualify.

Gift funds or business funds may be used to pay off the installment debt, subject to following the guideline requirements for either asset.

10.4.1 Lease Payments

Lease obligations must be included in the debt to income (DTI) ratio calculation, regardless of the time remaining on the lease.

10.4.2 Student Loans

Student loan obligations must be included in the debt to income (DTI) ratio calculation, whether they are deferred or in repayment. If no payment is shown on the credit report, then the payment should be provided by the student loan lender. If a payment is unable to be determined, 1% of the current loan balance must be used.

10.4.3 Timeshares

For credit review purposes, timeshare obligations will be considered installment loans.

10.5 Adverse Derogatory Credit (Collections, Charge-offs, Judgments, Liens)

- All derogatory credit that will impact title including delinquent taxes, judgments, charge-off accounts, tax liens and mechanics liens must be paid off or satisfied prior to or at closing.
- Collection accounts, charged-off accounts and judgments that do not impact title are not required to be paid off if the cumulative outstanding balance of all derogatory accounts is $5,000 or less.

- A signed and dated Letter of Explanation (LOE) is required for all derogatory credit in the past 12 months.

10.5.1 Bankruptcy History

Trailblazer Jumbo bankruptcy history requirements include:

- Loan application must be dated no less than seven (7) years from the bankruptcy discharge date.
- A dismissed bankruptcy is not applicable.
- Copy of complete bankruptcy paperwork including the discharge if applicable.

10.5.2 Consumer Credit Counseling Service

A borrower participating in a verifiable Consumer Credit Counseling Service (CCCS) is eligible with the most recent 12 months paid as agreed.

10.5.3 Foreclosure

Loan application must be dated no less than seven (7) years from the transfer of title. A property that is discharged in the bankruptcy will follow the bankruptcy discharge date.

10.5.4 Short-Sale and Pre-Foreclosure Sale

Loan application must be dated no less than four (4) years from the transfer of title.

10.6 Revolving Debt

The minimum required payment for revolving debt as stated on the credit report or current account statement should be used to calculate the debt to income (DTI) ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance must be included in the debt to income (DTI) ratio calculation.

Revolving accounts are permitted to be paid off prior to or at closing to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. Funds for the payoff of the account(s) must be fully documented. Evidence the account has been closed is not required.

10.7 Non-Traditional Credit

Non-traditional trade lines are not allowed.

10.8 Alimony, Child Support, Separate Maintenance Payments

When the borrower is required to pay child support or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, the payments must be considered as part of the borrower's recurring monthly debt obligations. Voluntary payments do not need to be taken into consideration. If the obligation will conclude within 10 months, the debt can be excluded if the monthly payment is not greater than 5% of the obligor's qualifying income.

When alimony is paid based on a divorce decree dated 12/31/2018 or earlier, the monthly alimony obligation may be considered as a reduction to the borrower's gross income rather than a monthly obligation, due to the tax consequences of alimony payments.

When alimony is paid based on a divorce decree dated 1/1/2019 or after, the monthly alimony obligation must be considered as a monthly obligation.

10.9 Contingent Liabilities

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability.

Contingent liabilities can be excluded from the debt to income (DTI) ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner (i.e. divorce): file must include the court order and evidence of transfer of ownership.
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership.
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party.

The Lender/Broker/Client is not required to evaluate the payment history for the assigned debt after the effective date of the assignment.

10.10 Debts Paid by Others

If the Seller obtains documentation that a non-mortgage debt has been satisfactorily paid by another party for the past 12 months (the most recent 12 months' canceled checks or bank statements), then the debt can be excluded from the debt to income (DTI) ratio. This policy applies regardless of whether the other party is obligated on the debt. The other party may not be an interested party to the transaction.

When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the Lender/Broker/Client may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt, and
- There are no delinquencies in the most recent 12 months, and

- The borrower is not using rental income from the applicable property to qualify.

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

Note: The debt cannot be prepaid in order to meet the minimum 12 month requirement.

Reference the Business Debt section when debt is paid by the business.

10.10.1 Delinquent Credit Belonging to Ex-Spouse

Delinquent credit which belongs to an ex-spouse may be excluded from the credit evaluation when all of the following apply:

- A copy of the divorce decree or separation agreement must be provided to evidence the derogatory accounts belong solely to the ex-spouse.
- Late payments that have occurred after the date of the divorce or separation.
- If the debt in question is a mortgage, evidence of title transfer prior to any delinquent debt must be provided and evidence of a “buyout” as part of the court proceedings.

10.11 Business Debt

If the debt is reflected on the borrower’s personal credit report, the borrower is personally liable for the debt and it must be included in the debt to income (DTI) ratio.

10.12 Deed-in-Lieu of Foreclosure

Loan application must be dated no less than seven (7) years from the transfer of title.

10.13 Modification

Loan application must be dated no less than four (4) years from the last modification date.

A loan modification that can be documented to indicate that it was only to reduce the interest rate and did not change any other loan terms will not be considered adverse credit and therefore is permitted regardless of date modified.

10.14 Forbearance

A borrower that is in an active forbearance plan, or pending acceptance of a forbearance plan, is ineligible for a new transaction with FGMC. The forbearance plan will need to be resolved prior to completing the new transaction. A mortgage late payment will render the borrower(s) ineligible, reference the Housing Payment History section for complete details.

10.15 Disaster Forbearance

When the borrower is in a forbearance plan due to a non COVID-19 FEMA Disaster, the file must include:

- Evidence the mortgage was timely prior to entering the forbearance;
- Proof that the subject property or place of employment is located within a Presidentially Declared Disaster Area;
- The forbearance agreement showing the terms of the plan, however, if repayment is required according to the forbearance agreement, proof of timely payments will be required; and
- Evidence that either the subject property, place of employment, or capacity for earnings was affected by the disaster.

10.16 Obligations Not Considered Debt

Obligations not considered debt, and therefore not considered as a liability or subtracted from gross income, include:

- Automatic deductions to savings accounts;
- Child care;
- Commuting costs;
- Federal, state and local taxes;
- Federal Insurance Contributions ACT (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
- Open accounts with zero balances;
- Union dues; and
- Voluntary deductions.

10.17 PACE Assessment

Property Assessed Clean Energy (PACE) programs must be paid off prior to or at closing.

10.18 Credit Usage

Credit utilization is a critical facet of sound underwriting practices.

10.18.1 Minimum Tradelines

The borrower with the representative credit score for the loan must have a minimum of three (3) tradelines reflecting 24 or more months activity and accounts may be open or closed as long as there has been activity on at least one (1) tradeline within the past 12 months.

All authorized users, charge offs, collections, deferred accounts and accounts included in bankruptcy are not considered acceptable to meet the requirements listed above.

10.18.2 Other Obligations Not on Credit

Obligations of all properties owned by the borrower must be fully documented. Housing and mortgage related obligations include property taxes, premiums and similar charges (i.e. mortgage insurance, ground rent, and leasehold payments) that are required to be verified.

These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowners' association billing statements, and information obtained from a valid and legally executed contract.

A lender may use a credit supplement to verify a borrower's current debt obligations, unless the lender has reason to believe that the information on the credit supplement is inaccurate or disputed. The credit supplement must include the name, phone number and date of contact. Debts such as alimony and child support may not be verified with a credit supplement.

10.18.3 Rolling Late Payments

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

10.18.4 Disputed Accounts

Disputed accounts (mortgage or non-mortgage) are reviewed to determine current balance and derogatory information within 12 months prior to the credit report date:

- Zero balance and no derogatory information – no action required.
- Zero balance and derogatory information - remove and pull new credit report.
- A positive balance and no derogatory information – remove and pull new credit report.
- A positive balance and derogatory information – remove and pull new credit report.

Disputed accounts on non-mortgage debt showing derogatory credit must be removed and credit re-pulled for accurate credit scores, unless the balance is less than $300 or is a medical account.

For all disputed accounts:

- A satisfactory letter of explanation/documentation is required for the disputed account(s).
- A credit supplement is not allowed to document disputed accounts.

10.18.5 HELOC Calculation

- When a borrower has a Home Equity Line of Credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations.
- If the HELOC does not require a payment, there is no recurring monthly debt obligation, so the lender does not need to develop an equivalent payment amount.

10.18.6 Open 30-Day Accounts

- For open 30 day charge accounts that do not reflect a monthly payment on the credit report, or 30 day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered as the required monthly payment.
- Open-ended accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

10.19 Maximum Debt to Income Ratio (DTI)

Maximum Debt to Income (DTI) ratio is:

- 43% when LTV ≤ 85%
- 40% when LTV > 85%

See the Eligibility Table for additional restrictions.

10.19.1 Qualifying Housing Payment

- Fully amortizing mortgage payments qualify using Principal, Interest, Taxes, Insurance, and Association Dues (PITIA).

CHAPTER 11. INCOME

This section outlines income requirements that apply to Trailblazer Jumbo.

11.1 Income Requirements

The Uniform Residential Loan Application (URLA) must reflect employment history as follows:

- Full Doc Wage Earner/Self-Employed: Two (2) year history of primary employment.

In all instances, the borrower may only have a maximum of two (2) employment sources.

- W2 income is considered one (1) employment source, regardless if the borrower has multiple W2 jobs.
- A 5% LTV reduction is required when a borrower has more than one (1) employment source.

Borrower(s) who are self-employed but are not using self-employment income to qualify, do not have to meet the Full Doc Self-Employed requirements if the income stream is positive. If the income is at net zero or a loss, all self-employed requirements must be met for that business.

11.1.1 Earnings Trends

The stability of fluctuating income is determined based primarily upon historical earnings, so it is imperative that a sufficient income history has been established. The file must include a written analysis, and sufficient supporting documentation, justifying the determination of stability.

When making this determination, take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the borrower's demonstrated ability to repay obligations.

Declining income sources must be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline cannot be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline in income must be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income must be used and may not be averaged.

11.1.2 Automated Underwriting System (AUS)

AUS is not required to be run, all loans must be manually underwritten.

11.1.3 IRS 4506-C Validation

Prior to final approval for all income sources:

- The 4506-C must be fully completed and executed for the two (2) most recent years with the IRS
- The tax transcripts must be provided by Lender/Broker/Client and must be obtained through 4506-C validation
- The tax transcripts must reconcile with the documentation used to qualify

When the IRS rejects the request for the borrower's W2 or Tax Return Transcripts due to identity theft (IRS rejection code 10), FGMC will accept alternative documentation. The information noted below should ***NOT*** be used when a "no record found" or "data does not match" response is received from the IRS. With the exception of the example detailed below, transcripts may not be obtained by the borrower(s):

When the Reason for IRS Rejection is….	**Then Provide…**
Identity Theft	• A copy of the notification from the IRS alerting the taxpayer to the possible identification theft (IRS rejection code 10) • Validation of the reported income on the tax returns by providing the following documentation: o Borrower obtained Record of Account Transcript, in pdf format, for all applicable years missing from www.irs.gov, or all of the following: ▪ W-2 or 1099 transcripts which match the W-2 or 1099 income reflected on transcripts, ▪ Validation of prior tax year(s) income (income for the current year must be comparable to prior year(s)

Do not use the guidelines reflected above when a "no record found" or "data does not match" response is received from the IRS.

11.1.4 Verbal Verification of Employment (VVOE)

A verbal VOE is required to be completed no more than ten (10) business days prior to the Note Date. When the verification of employment will expire prior to the Note Date, re-verification of employment is only required to confirm the borrower is still employed; full employment verification is not required.

11.1.5 Self-Employed: Business Verification

The existence of self-employed business(es) must be validated within 30 calendar days prior to the Note Date. Each source of self-employment income requires that the existence of the business is independently verified through a disinterested third party. Supporting documentation that the business is active must be obtained. The following are examples of documentation that is acceptable to confirm business ownership:

- Letter from CPA, regulatory agency, or applicable licensing bureau; or
- Secretary of State listing reflecting the current year's registration; or
- Third-party verification of a phone and address listing using the Internet.

11.1.6 Income Worksheet

The loan file must include an income worksheet detailing income calculations. Income analysis for borrowers with multiple businesses must show the income/loss details separately, not in aggregate.

11.2 Income Analysis

For all income, the Client/Underwriter must determine how the borrower is paid to accurately analyze and calculate the stable monthly income used for qualifying. The documentation in the mortgage file must support the income analysis and calculation. If the documentation does not support the income used for qualifying purposes, further analysis is required, and additional documentation may be necessary to support the stability of the income and the amount of income used to qualify.

11.3 Foreign Income Documentation

For income derived from a non-U.S. employer in which an employer letter is provided, the letter must be on company letterhead, including address and company web address.

- Employer must be independently verified (LexisNexis, D&B, Google, other).
- All non-U.S. documents must be translated, signed and dated by an independent certified translator.

11.4 Full Doc Wage Earner

Full doc wage earner(s) must qualify using 24 months of earnings. Income must be documented as stable and likely to continue. When a paystub is provided, it must be dated within 30 days of initial loan application and include a Year to Date (YTD) earnings.

A verbal VOE is required to be completed no more than ten (10) business days prior to the Note Date.

11.4.1 Bonus and Overtime

The following documentation is required to determine eligible income:

- Year to Date (YTD) paystub(s) documenting earnings; and

- W-2's for the most recent two (2) calendar years; or
- Written VOE documenting the prior two (2) calendar year earnings and the YTD earnings for the most recent calendar year.
- A period of more than two (2) years must be used calculating the average overtime and bonus income if the income varies significantly from year to year.

11.4.2 Commission Income

The following documentation is required to determine eligible commission income:

- Year to Date (YTD) paystub(s) documenting earnings; and
- W-2's for the most recent two (2) calendar years; or
- Written VOE documenting the prior two (2) calendar year earnings and the YTD earnings for the most recent calendar year; and
- Tax returns for the most recent two (2) calendar years.

11.4.3 Continuing Education

For a borrower who has less than two (2) years employment and income history, the borrower's income can be considered if the file contains documentation to support that the borrower was either attending school or in a training program immediately prior to their current employment. School transcripts must be provided to document.

11.4.4 Employer Differential Income

If the employer subsidizes a borrower(s) mortgage payment through direct payments, the amount of the payments is considered gross income. The payments cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly.

11.4.5 Hourly and Salary Pay

Primary employment earnings documentation requirements:

- Year-to-Date (YTD) paystub(s) covering a 30 day period; and
- W-2's for the most recent two (2) calendar years; or
- Written VOE documenting the prior calendar year earnings and the YTD earnings for the most recent calendar year.

Note: The paystub must be dated within 30 days of initial loan application.

11.4.6 Job Gaps/Re-Entering the Work Force

Gaps in employment in excess of 30 days during the past one (1) year or 60 days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months.

- Employment prior to the job gap must be verified for a minimum of six (6) months.

11.5 Full Doc Other Sources

This section details other sources of income permitted under the loan program.

11.5.1 Annuity Income

Annuity income can be used for qualification when the following requirements are met:

- 24 month history must be verified using most recent year 1099's, most recent two (2) years tax returns, and/or current bank statements; and
- Letter from an issuer of annuity is to be obtained stating that it has been set up on periodic withdrawals, amount of withdrawals, duration and balance; and
- Account asset balance must support the continuance of the monthly payments for at least three (3) years after the close of escrow.

11.5.2 Automobile Allowance

Automobile allowances may not be used to offset a car payment. Automobile payments must be included in the debt to income (DTI) ratio calculation.

If payments have been received for a minimum of two (2) years and the car allowance is documented on the borrower's pay stub, W-2, or other satisfactory income documentation, the income can be used to qualify subject to the following calculation:

- If the allowance is less than the expenses, the loss must be deducted from qualifying income.
- If the allowance is more than the expense, the income can be added to the borrower's total qualifying income.

11.5.3 Capital Gains

When capital gains are used to qualify the borrower, tax returns for the most recent three (3) years are required. For the income to be considered stable and likely to continue, the borrower must document sufficient assets to show the income will continue for a minimum of three (3) years from the Note Date.

- If the earnings trend results in a gain it can be used as effective income.

- If the earnings trend consistently show a loss, the loss must be deducted from the total income.
- If assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

11.5.4 Child Support and Alimony

Evidence of child support and/or alimony income must be documented with proof of receipt of the previous 12 months and evidence of continuation for the next three (3) years.

- Document proof of receipt with the most recent year tax returns, statement(s) from the issuing child support division, bank statements, or cancelled checks.
- To support the amount of child support and/or alimony being received, provide the divorce decree, a statement from the issuing child support division, and/or the child support deduction order.
- Income not received on a consistent basis cannot be used as income.

11.5.5 Disability – Long and Short Term

Long-term and short-term disability income can be used for qualification. Disability income is considered effective and likely to continue if the documentation does not have a defined expiration date.

The following documentation must be obtained for both long-term and short-term disability:

- Award letter from either the insurance company or employer providing the payment amount.
  - Documentation to be reviewed for a contractually established termination or modification date.
- A copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

- Signed and dated letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

Note: It is not acceptable to request additional documentation from the borrower to demonstrate continuance of disability or Social Security disability income. Under no circumstance are inquiries to be made into the nature of the disability or the medical condition of the borrower.

11.5.6 Dividend and Interest Income

Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:

- Federal income tax returns for the most recent two (2) calendar years supporting receipt; and
- Verification of stock asset values no older than 30 days at application.

Sufficient assets must remain after closing to continue to generate an acceptable level of earnings. If assets that generated the dividend and/or interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings must be averaged over the period verified when current earnings are consistent with historical dividend and interest earnings.

11.5.7 Employed by Relative

Income received from employment by a relative must be verified with the following:

- Federal income tax returns for the most recent two (2) years; and
- W-2 for the most recent two (2) years; and
- Pay stub(s) covering the most recent 30-day period; and
- Income must be averaged using tax returns for the most recent two (2) years plus YTD earnings from the current paystub(s).
  - When there is a decline in income, the most recent lower income must be used and may not be average.

Clarification of potential ownership by the borrower(s) of a family owned business will be required if the information is not readily available using an online search.

A borrower may be an officer of a family operated business but not an owner. Verification of an officer’s ownership in the business must be provided by written confirmation obtained from the employer’s CPA or legal counsel.

11.5.8 Foster Care

Income derived from foster care payments may be considered if it is regular, recurring and is expected to continue for the next three (3) years. Documentation must include tax returns for the previous two (2) years to support history of receipt. Income that will continue past the age of 18 must be documented according to state guidelines, with evidence of continuance in the loan file.

The income can be verified by letters from the organizations and copies of borrower's deposit slips, bank statements or verification from the foster care administrator showing regular deposit of the payments.

The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Income must be averaged over the past 24 months.

11.5.9 Non-Taxable Income

Non-taxable income may be grossed up by 25%.

Sources of non-taxable income include:

- Alimony (when received based on a divorce decree dated 1/1/2019 or after)
- Basic Allowance for Housing (BAH)
- Basic Allowance for Subsistence (BAS)
- Child Support
- Clergy Housing Allowance
- Clothing (Uniform) Allowance
- Disability Retirement
- Foster Care
- Social Security (portion that is not taxed)
- Social Security Disability
- Worker's Compensation

11.5.10 Notes Receivable

Income from notes receivables can be used to qualify provided the income is regular and recurring. The borrower must have a documented history of receiving the income for at least one (1) year and can evidence that the income will continue for at least three (3) years from the Note Date on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent calendar year (including Schedule B). Year to Date bank statements evidencing receipt in the current year must be provided to reflect consistent deposits of funds.

Income from a recently executed note/contract must be verified for a minimum of 12 months to be considered as qualifying income. Verification of receipt can be a combination of tax returns and bank statements.

A copy of the note verifying payment amount and remaining term of at least three (3) years must be obtained.

11.5.11 Retirement, Government Annuity and Pension Income

Income from pension can be used to qualify provided it can be document as regular and continued receipt of income, as verified with the following:

- Letters from the organizations providing the income; or
- Copies of retirement award letters; or
- Copies of signed federal income tax returns; or
- IRS W-2 or 1099 forms, and
- Proof of current receipt.

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition

- The borrower must have unrestricted access without penalty to the accounts; and
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

11.5.12 Seasonal Employment

Seasonal income is considered as uninterrupted, and may be used to qualify, subject to the following documentation:

- Evidence has been employed with the same company for the past two (2) years, and
- Written VOE from employer to support the likelihood of seasonal re-hiring.

Income must be supported with:

- Most recent Year-to-Date (YTD) paystub(s) documenting earnings; and
- W-2 for the most recent two (2) calendar years; or
- Written VOE documenting the prior two (2) year earnings and the YTD earnings for the most recent calendar year.

11.5.13 Secondary Employment

Secondary employment is derived from a second job or multiple jobs the borrower may have. Secondary income must be supported with:

- Year-to-Date (YTD) paystub(s) documenting earnings; and
- W-2 for the most recent two (2) calendar years; or
- Written VOE documenting the prior calendar year(s) earnings and the YTD earnings for the most recent calendar year.

11.5.14 Social Security Retirement, Disability and Supplemental Security Income

Social Security income is considered effective and likely to continue if the documentation does not have a defined expiration date.

However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.

Social Security Retirement and Disability Income paid on behalf of the borrower(s) must be supported by:

- Social Security Award Letter (SSA); or

When the income is received on behalf of another person’s account/work record, the income must be supported by:

- Social Security Award Letter (SSA),
- Proof of current receipt, and
- Evidence of three (3) year continuance (i.e. verification of beneficiary’s age).

11.5.15 Trust Income

Income from trusts may be used if continuous payments will continue for at least the first three (3) years of the mortgage term as evidenced by trust income documentation.

Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:

- Amount of the trust
- Frequency of distribution
- Duration of payments

When funds from a Trust account are being utilized toward funds to close and/or reserves, they may not be utilized as qualifying income.

11.5.16 Unemployment Compensation

Income derived from unemployment compensation is generally not to be considered stable due to the limited duration of its receipt. An exception to this would be a Borrower employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income may be used to qualify when a two (2) year employment history in the same field of work is verified along with a two (2) year history of receipt of unemployment compensation. There must also be a reasonable assurance that this income will continue. Documented income is averaged over the time period verified. A two (2) year history of 1099 and tax returns must be used to establish a history of the receipt of these benefits.

11.5.17 Veterans Affairs Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable with the VA Award Letter, Certificate of Eligibility or with evidence of direct deposit into a financial account. Monies paid toward education benefits cannot be included as qualifying income.

11.6 Full Doc Self-Employed

- A borrower is considered self-employed where he or she has a 25% or more ownership interest in a business.
- Borrower(s) who are self-employed but are not using self-employment income to qualify, do not have to meet the self-employed income requirements below if the income stream is positive. If the income is at net zero or a loss, all self-employed requirements must be met for that business.
- Full doc self-employed borrower(s) may qualify using 24 months of signed and dated tax returns. Self-employed income can be used for qualification when the following requirements are met:
  - Two (2) years of the most recent personal and business tax returns signed and dated; and
  - Year to date Profit and Loss (P&L) statement and balance sheet; and
  - Business must be active and in existence for a minimum of two (2) years; or
  - Borrower must be self-employed in the same line of business for a minimum of two (2) years.
  - The existence of self-employed business(es) must be validated within 30 calendar days prior to the Note Date.
- **All tax returns must be signed and dated prior to the Note Date.**
- File must include evidence the businesses are same line of business with CPA letter, online documentation, regulatory business filing(s). This must specifically describe the type of each business.

- A year-to-date Profit and Loss (P&L) statement must be obtained if two (2) calendar quarters, including the quarter in which the filing was made, has elapsed since the date of the most recent fiscal year-end tax return was filed by the borrower.
- Whether the P&L is prepared by the borrower or a CPA, it must be reviewed for consistency with the prior year tax return earnings. Any negative fluctuations must be factored into the income calculation; positive fluctuations may not be taken into consideration unless the P&L is prepared and signed by a CPA.

11.6.1 Self-Employed Earnings Trend

When evaluating a self-employed borrower, the borrower's earnings trend from the previous two (2) years must be analyzed using the tax returns.

If a borrower:

- Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filings, or
- Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.
- If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the income analysis must be based solely on the income verified through the tax returns.
- If the borrower's earnings trend for the previous two (2) years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

11.7 Rental Income

For all rental income:

- Income must be supported by Schedule E with the most recent two (2) calendar years tax return filing and a current signed lease agreement.
- An expired signed lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is allowed.
- For a 2-4 unit property, it is not necessary to calculate the net rental income for all units if the loan qualifies using the calculation from a portion of the units.
- When rental income is utilized along with wage-earner income sources (i.e. paystubs, tax returns, etc.), tax returns will be used to calculate renal income and IRS validation is required.

11.7.1 Income from the Subject Property

- When rental income is utilized with wage-earner income sources (i.e. paystubs, tax returns, etc.):
    - Tax returns will be used to calculate rental income, and
    - IRS validation of tax returns is required.
    - If the property is not reported on tax returns, the rental income will be calculated based on the lower of the lease agreement or the Market Rent Analysis:
        - FNMA Form 1007/FHLMC 1000 x 75% for a single unit property
        - FNMA Form 1025/FHLMC 72 x 70% for a 2 – 4 unit property

11.7.2 Income from an Accessory Unit on a Primary Residence

Income from an accessory unit on a primary residence may be given consideration with the following stipulations:

- Unit must be considered an "accessory unit" as described within the appraisal; and
- Income must be supported by Schedule E with the most recent two (2) calendar years tax return filing.

11.7.3 Income from Roommates or Boarders in a Single-Family Property

- Income must be supported by Schedule E with the most recent two (2) calendar years tax return filing.
- If not on the tax return, rental income paid by the roommate or boarder may not be used to qualify a consumer.

11.7.4 Converting Primary to Rental

Provide fully executed lease agreement, proof of first month rent and security deposit. No more than 75% of the lease agreement may be used to qualify.

11.7.5 Income from a Second Home

- Rental income will not be considered.

11.7.6 Income from Property Other than the Subject Property

- Income must be supported by Schedule E with the most recent two (2) calendar years tax return filing and a current lease agreement.

  - The income will be calculated based on the lower of Schedule E or the lease agreement using 75% for a single unit property or 70% for a 2-4 unit property.
- If property has not previously been rented, evidence the rental property was acquired within the most recent tax filing year.
  - The income will be calculated based on the lease agreement using 75% for a single unit property or 70% for a 2-4 unit property.
- Short term rental such as Airbnb is allowed per the below formula:
  - 12 month average (from bank statement deposits) of the Airbnb deposit income less a 25% vacancy factor and less the PITIA on the non-owner property to calculate either a negative or positive for the rental property.

11.8 Unacceptable Income

The following are not acceptable sources of income under this product offering:

- Asset Depletion
- Cash advance on credit card
- Cash on hand (unless can provide a bill of sale, proof of value and same-day deposit of cash payment)
- Crypto-currency
- Debt Service Coverage Ratio (DSCR)
- Donated funds
- Educational benefits
- Expense account reimbursement (excluding automobile or mileage reimbursement when properly documented)
- Gambling winnings (except lottery continuing for five (5) years)
- Gift that must be repaid
- Illegal income including marijuana
- Refunds of federal, state, or local taxes
- Restricted Stock (RSU)
- Salary advance
- Signature loan

- Stock options
- Sweat equity
- Unsecured/Personal loan

CHAPTER 12. REFINANCE

12.1 Introduction

This section outlines refinance requirements that apply to the Trailblazer Jumbo program.

12.2 Subject Property Listing Restrictions

Properties currently listed for sale or listed within the past 12 months are not eligible for a refinance transaction. Days off the market is calculated from the application date.

12.3 No Cash-Out Refinance

No Cash-Out Refinance transactions must meet the following requirements:

- The transaction is being used to pay off an existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property.

The loan amount is limited to the sum of the following:

- Existing first mortgage payoff, closing costs, fees, and any prepaid items.
- Any subordinate financing which was used to acquire the subject property.
- Any subordinate financing that was not used to purchase the subject property provided:
    - For closed end seconds, the loan is at least one (1) year seasoned as determined by the time between the Note Date of the subordinate lien and the application date of the new mortgage; or
    - For HELOCs and other open ended lines of credit, the loan is at least one (1) year seasoned and less than $2,000 in total draws over the past 12 months.

12.3.1 Maximum Cash Back

For a no cash-out transaction, no more than $5,000 in cash back is permitted.

12.4 Cash-Out Refinance

Cash-out refinance transactions must meet the following requirements:

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.

- The property must have been purchased (or acquired) by the borrower at least 12 months prior to the disbursement date of the new mortgage loan (see Ownership Seasoning for exceptions).
- If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's 12 month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
- If the property was owned prior to closing by an *inter vivos* revocable trust, the time held by the trust may be counted towards meeting the borrower's 12 month ownership requirement if the borrower is the primary beneficiary of the trust.
- The payoff of a non-purchase money subordinate lien, regardless of whether additional cash out was taken, must be considered a cash-out refinance.

Proceeds from a cash-out refinance transaction may be used toward the minimum reserve requirement provided two (2) months' reserves are verified from the borrower(s) own funds.

A Debt Consolidation loan is classified as a Cash-Out Refinance for loan eligibility purposes.

12.4.1 Maximum Cash Back

The cash back criteria is as follows:

- Maximum cash back = $350,000
    - LTV/CLTV > 50%
- Maximum cash back = $500,000
    - LTV/CLTV ≤ 50%

12.4.2 Delayed Financing

Cash-out on properties purchased with cash and owned less than 12 months must meet the following requirements:

- Original transaction was arm's-length; and
- Closing Disclosure (CD) from purchase confirms no mortgage financing was used to acquire subject; and
- Source of funds used for purchase are documented (gift funds cannot be included); and
- New loan amount cannot exceed the actual documented amount of the initial investment toward purchase plus financing closing costs, prepaids and discount points on the new loan; and

- All other cash-out refinance eligibility requirements must be met.

12.5 Transaction Seasoning

For all refinance transactions, a minimum of six (6) months must have elapsed since the most recent mortgage transaction on the subject property. Note Date to Note Date is used to calculate the six (6) months.

The payoff of a non-purchase money subordinate lien, regardless of whether additional cash out was taken, must be considered a cash-out refinance.

12.6 Ownership Seasoning

For properties owned 12 or more months, there is no seasoning requirement.

Properties owned less than 12 months are eligible in the following situations:

- Short-term financing in the form of a bridge loan; eligible for no-cash out refinance only; the LTV will be calculated using the lesser of the sales price/documented acquisition cost or appraised value.
- Refinancing a construction loan into permanent financing; eligible for no-cash out refinance only; the LTV will be calculated using the lesser of the sales price/documented acquisition cost or appraised value.
- Evidence the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).

Otherwise, properties owned less than 12 months are only eligible under delayed financing guidelines.

CHAPTER 13. HOMEOWNER'S INSURANCE

This section outlines homeowner's insurance requirements that apply to the Trailblazer Jumbo program.

13.1 Deductible

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condominium, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

13.2 Policy Effective Dates

The policy effective dates are as follows:

- Purchase effective date may be up to 30 days prior to closing date
- If the expiration date is within two (2) months of the Note Date on a refinance, a copy of the renewal policy must be provided
  - If the HOI company is not able to provide the renewal policy, the transaction may proceed with the active policy and sufficient escrows to cover the renewal policy

13.3 Minimum Dwelling Coverage

If the HOI policy or declaration page includes one of the following types of replacement cost, the coverage is acceptable without further scrutiny:

- Guaranteed Replacement Cost, or
- 100% Replacement Cost

If the HOI policy / declaration page does not include Guaranteed Replacement Cost or 100% Replacement Cost, the replacement cost estimate must be obtained to establish the minimum required dwelling coverage. This may be documented with:

- Replacement Cost Estimate from the insurance company, or
- An email from the insurance agent confirming the value of the replacement cost coverage

The dwelling coverage must be equal to the lesser of the following:

- Replacement cost value as determined by the insurer, or
- Loan amount, as long as the loan amount is equal to or greater than 80% of the replacement cost value.

The following table describes how to calculate the amount of required property insurance coverage that must be reflected on the HOI policy / declarations page:

To determine the correct amount of Homeowner's Insurance Coverage, complete the following steps:

<table>
<tr><th>Step</th><th>Action</th></tr>
<tr><td>1</td><td>Compare the replacement cost value to the loan amount.
<table>
<tr><th></th><th>If…</th><th>Then…</th></tr>
<tr><td>1A</td><td>If the replacement cost is less than the loan amount</td><td>The replacement cost is the amount of coverage required</td></tr>
<tr><td>1B</td><td>If the loan amount of the mortgage is less than the replacement cost</td><td>Go to Step 2.</td></tr>
</table></td></tr>
<tr><td>2</td><td>Calculate 80% of the replacement cost.
<table>
<tr><th></th><th>If…</th><th>Then…</th></tr>
<tr><td>2A</td><td>If the result of this calculation is equal to or less than the loan amount</td><td>The amount of coverage required is equal to the loan amount.</td></tr>
<tr><td>2B</td><td>If the result of this calculation is greater than the loan amount</td><td>This calculated figure is the amount of coverage required.</td></tr>
</table></td></tr>
</table>

Examples:

Category	Property A	Property B	Property C
Replacement Cost	$90,000	$100,000	$100,000
Loan Amount	$95,000	$90,000	$75,000
80% Replacement Cost	-	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

CHAPTER 14. FLOOD INSURANCE

FGMC requires that each subject property located in a Special Flood Hazard Area (SFHA) have adequate flood insurance. Flood insurance coverage must meet the requirements for the property type under the National Flood Insurance Program (NFIP) guidelines. Flood insurance must be obtained prior to loan closing with evidence of acceptable insurance included in the loan file. Refer to the Flood Insurance chapter of the Correspondent Seller Guide/Wholesale Broker Guide for detailed information regarding flood insurance coverage requirements.

CHAPTER 15. SUBORDINATE FINANCING

Secondary financing is permitted when it meets the following requirements:

- Made subordinate to the first lien
- Title indicates it is in second lien position
- CLTV/HCLTV does not exceed maximum allowed per the Eligibility Table
- Terms of the subordinate lien must be less than or equal to the term of the first lien

Required documentation includes:

- A copy of the executed subordination agreement
- A copy of the second lien note

This borrower is not required to satisfy outstanding junior liens secured by the subject property provided:

- There is a fully executed copy of the subordination agreement verifying FGMC's lien is in first position.
- The subordinate financing was provided by a financial institution.
- A copy of the note is provided and reviewed to ensure terms are consistent with other requirements of these guidelines.

The following are not permitted with any subordinate financing:

- Loans made by any individual or any non-financial institution
- Loans negative amortization
- Loans that do not meet Fannie Mae's criteria of acceptable subordinate financing

15.1 CLTV/HCLTV Calculation

CLTV Calculation is the sum of the following divided by the property value

- The original loan amount of the first mortgage
- The drawn portion (outstanding principal balance) of a HELOC
- The unpaid principal balance of all closed-end subordinate financing

HCLTV Calculation is the sum of the following divided by the property value:

- The original loan amount of the first mortgage
- The full amount of any HELOCs (whether or not funds have been drawn)

- The unpaid principal balance of all closed-end subordinate financing

CHAPTER 16. TITLE INSURANCE REQUIREMENTS

This section outlines general title requirements that apply to the Trailblazer Jumbo program.

The title insurance policy must ensure that the title is generally acceptable and that the mortgage constitutes a lien of the required priority on a fee simple or leasehold estate in the property.

All existing lien(s) reflected on the title policy must be satisfied prior to (or subsequent to) the Note Date. Subordinate financing is not eligible.

The title policy must be written on one (1) of the following forms:

- The 2006 American Land Title Association (ALTA) standard form; or
- An ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form and does not materially impair protection to FGMC.
- In states in which standard ALTA forms of coverage are, by law or regulation, not used, the state promulgated standard or short form which provides same coverage as the equivalent ALTA form, provided that those forms do not materially impair protection to FGMC.

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

16.1 Title Exceptions

The following item is an allowable title exception:

- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.