



Copper Series Product Line
Closed End Second Standalone Home Equity Loan Underwriting

Eligibility Matrix					
Units	Occupancy	Loan Amount	Credit Score	CLTV	DTI
1 Unit	Primary Residence	\$250,000	700	80%	45%
		\$300,000	700	75%	
		\$250,000	680		
		\$350,000	700	70%	
		\$300,000	680		
		\$100,000	660		

2nd Mortgage Standard Fees

Underwriting: \$995.00

Processing: Included

Credit Report: \$78.06

AVM: \$45.00 (AVM is only charged if an AVM is utilized in lieu of an appraisal)

Appraisal: \$450.00+ (If an AVM cannot be utilized)

Closing Protection Letter

First Tennessee Warehouse Lending

Its Successors and/or Assigns

7640 Poplar Ave., Suite 210, Germantown, TN 38138-3927

Must Include: Borrower’s Last Name and Transactional Loan Number

Insurance Loss Payee

Coast 2 Coast Funding Group, Inc.

Its Successors and/or Assigns

1 Orchard Road, Suite 235, Lake Forest, CA 92630-8315

Must Include: Loan Number



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

Topic	Guideline	
1. Overview	A closed-end second mortgage is a loan where the funds are disbursed in full when the loan closes and is subordinate to the first mortgage lien.	
2. Loan Terms	20 Year and 30 Year terms only	
3. Program Codes	Product	Description
	22019	Closed End Second Standalone 20 Year
	23019	Closed End Second Standalone 30 Year
4. Eligible First Lien	<ul style="list-style-type: none"> The first lien must be seasoned a minimum of 6 months, measured from the Note date of the existing first lien to the Note date of the new closed end second loan. 	
5. Ineligible First Liens	<ul style="list-style-type: none"> Loans in active forbearance or deferment HELOC Interest Only features Loans with negative amortization feature Reverse Mortgages Outstanding terms greater than 30 years Balloon loans with a maturity date before the maturity date of the second subject lien Private first liens 	
6. Property Financing	No more than two mortgage liens on a single property (i.e., the first lien and the new second lien). Financing that is subordinate to the second lien is not permitted.	
7. Subordinate Lien	<ul style="list-style-type: none"> Pay off other existing junior liens on the property required, for example, municipal, other property liens, solar panel liens. <p>Note: If the solar panels are leased (no lien on subject), follow standard Fannie Mae requirements.</p>	



Copper Series Product Line
Closed End Second Standalone Home Equity Loan Underwriting

<p>8. HPML</p>	<p>Permitted with the following requirements:</p> <ul style="list-style-type: none"> • A full interior/exterior appraisal (Form 1004/1073) <p>Refer to section 8A.2 for the underwriting guidelines for additional information</p>
<p>9. Rebuttable Presumption</p>	<p>Permitted with the following requirements:</p> <ul style="list-style-type: none"> • All federal and state HPML loan requirements are met
<p>10. Underwriting</p>	<ul style="list-style-type: none"> • All loans must be manually underwritten • Any guidelines not stated in this Guide must comply with Fannie Mae Selling Guide • A maximum of four (4) borrowers permitted • A comprehensive fraud report is required – i.e. Drive, CoreLogic
<p>11. Income</p>	<p>Tax Transcripts</p> <ul style="list-style-type: none"> • Tax transcripts for personal tax returns for the most recent 2 years are required when tax returns are used to document borrower’s income, or any loss and must match the documentation in the loan file. • Borrower(s) obtained tax transcripts are not permitted <p>Refer to underwriting guidelines for additional information.</p>



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

<p>12. Assets and Reserves</p>	<p>No asset verification is required unless assets are required for:</p> <ul style="list-style-type: none"> • Cash to Close; or • Payoff of Debt; or • Utilizing assets as an income source (i.e., Capital Gains or Dividends and Interest) <p>When assets are required, the most recent two (2) months statements are required.</p> <p>Reserves are not required.</p>
<p>13. Documentation</p>	<ul style="list-style-type: none"> • Full documentation • Required Documents <ul style="list-style-type: none"> ○ 1008 ○ Mortgage Statement for Subject Property 1st lien to confirm mortgage is not ineligible 1st lien (see section 5 for list of ineligible 1st liens) ○ If unable to confirm eligible 1st lien, obtain original 1st mortgage note • Condominiums – warranty form and all supporting documentation • Ability to Repay Attestation <p>Closing Documents – must follow all federal and state document requirements and any required documents for 2nd lien loans</p>
<p>14. Qualifying Rate</p>	<p>Note rate</p>
<p>15. Occupancy</p>	<p>Primary residence</p>
<p>16. Minimum & Maximum Loan Amount</p>	<ul style="list-style-type: none"> • Minimum loan amount \$50,000 • Maximum loan amount \$350,000 <ul style="list-style-type: none"> ○ Maximum combined loan amount (total amount of 1st and 2nd liens combined) \$3,000,000 ○ Use the current balance of the first lien and the loan amount for the subject transaction to calculate the combined loan amount



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

17. Properties listed for sale	Properties listed for sale within six months of the application date are ineligible
18. Eligible Borrowers	<ul style="list-style-type: none"> • U.S. Citizen • Permanent resident alien • Inter Vivos revocable living trust
19. Ineligible Borrowers	<ul style="list-style-type: none"> • Non-occupant co-borrowers • Non-permanent resident aliens See underwriting guidelines for additional details
20. Power of Attorney	<ul style="list-style-type: none"> • Not permitted
21. Eligible Property Types	<ul style="list-style-type: none"> • 1-unit • Condo: Fannie Mae warrantable-see Condominium Guidelines <ul style="list-style-type: none"> ○ Condominiums – minimum 400 square feet • PUD • Maximum 10 acres • Minimum 750 square feet
22. Payment History	<ul style="list-style-type: none"> • Inclusive of all liens regardless of position • Applies to all mortgages on all financed properties • At least one of the borrowers must have a minimum 12-month payment history with 0x30x12 <p>When the existing lien is not seasoned for 12 months, the prior mortgage or rent history is required to complete the full 12-month payment history.</p> <p>When no borrower on the application has a 12-month housing history, the application is ineligible.</p>
23. Number of Financed Properties	Maximum four financed properties, including the subject property
24. Geographic Restrictions	None



Copper Series Product Line
Closed End Second Standalone Home Equity Loan Underwriting

<p>25. Appraisal</p>	<p>Property Valuations Requirements:</p> <ul style="list-style-type: none"> • Loan amount \leq \$250,000 <ul style="list-style-type: none"> ○ AVM with exterior property inspection <ul style="list-style-type: none"> ▪ AVM must be dated within 60 days of the Note Date ▪ Exterior property inspection must be dated within 120 days of Note Date ▪ Approved AVM providers require a Forecast Standard Deviation (FSD) score <ul style="list-style-type: none"> ○ Clear Capital - \leq 0.13 ○ Home Genius Real Estate - \leq 10 ○ Exterior-only appraisal (Form 2055), or ○ Full interior/exterior appraisal (Form 1004/1073)
<p>26. Declining Market</p>	<p>Properties located within a declining market are not permitted</p>
<p>27. Mortgage Insurance</p>	<p>N/A</p>
<p>28. Ineligible Loan Features</p>	<p>The following are not eligible:</p> <ul style="list-style-type: none"> • Amortization recast • Assumptions • Prepayment penalty • Temporary buydown • Escrow Holdbacks



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Underwriting Guidelines

Section 1 Loan Eligibility	12
1A.1 Ability to Repay (ATR)	12
1A.2 Age of Documentation	13
1A.3 Occupancy Types	13
1A.3(a) Primary Residence	13
1A.4 Borrower Eligibility	14
1A.4(a) U.S. Citizens	14
1A.4(b) Permanent Residents	14
1A.4(c) Inter Vivos Revocable Living Trust Requirements.....	15
1A.4(d) Spousal Property Rights	16
1A.4(e) Ineligible Borrowers	17
1A.4(e) Certification of Trust.....	17
1A.4(f) Title Requirements	17
1A.4(g) Legal Documents and Riders.....	18
Section 2 Property Types	18
2A.1 Single Family Residence.....	18
2A.2 Condominium.....	18
2A.3 Planned Unit Development (PUD).....	19
2A.4 Multiple Financed Properties	19
2A.5 Ineligible Property Types	20
Section 3 Credit	21
3A.1 Minimum Tradeline Requirements	21
3A.2 Disputed Tradelines.....	22
3A.3 Frozen Credit.....	22



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

3A.4 Housing History	22
3A.5 Credit Events.....	22
3A.6 Credit Inquires.....	23
3A.7 Inquires and Undisclosed Debt	23

Section 4 Liabilities..... 24

4A.1 Revolving Debt	24
4A.2 Installment Debt.....	25
4A.3 Income Taxes and Payment Plans	26
4A.4 Open 30-Day Charge Accounts.....	26
4A.5 Home Equity Lines of Credit (HELOC)	26
4A.6 Student Loans.....	27
4A.7 Contingent Liabilities.....	27
4A.8 Business Debt in Borrower’s Name	28
4A.9 Court-Ordered Assignment of Debt	28

Section 5 Assets 29

5A.1 Eligible Assets.....	29
5A.2 Joint Assets.....	29
5A.3 Large Deposits	29
5A.4 Checking, Savings, Money Market Accounts and CDs	29
5A.5 Publicly Traded Stocks, Bonds, Mutual Funds	29
5A.6 Retirement Accounts.....	29
5A.7 Cash Value of Life Insurance and Annuities	30
5A.8 Business Funds.....	30
5A.9 Unacceptable Sources of Funds	31



Copper Series Product Line
Closed End Second Standalone Home Equity Loan Underwriting

Section 6 Employment and Income Stability..... 31

6A.1 Stability of Income..... 31

6A.2 Declining Income..... 32

6A.3 Stability of Employment 32

6A.4 Gaps of Employment..... 32

6A.5 Prior Military or Education Experience 32

6A.6 Unacceptable Sources of Income 33

Section 7 Income Documentation Requirements 33

7A.1 General Requirements..... 33

7A.2 Tax Transcripts 34

7A.3 Verbal Verification of Employment (VVOE) Requirements: Wage Earner 35

7A.4 Verbal Verification of Employment (VVOE) Requirements: Self Employment..... 36

7A.5 Written Verification of Employment (WVOE) 36

7A.6 Wage Earning Income 37

7A.7 Salaried Income..... 37

7A.8 Fluctuating Hourly, Variable Hourly and Part-Time Income 37

7A.9 Commission Income..... 37

7A.10 Overtime and Bonus Income..... 38

7A.11 Alimony, Child Support, Separate Maintenance 38

7A.12 Borrowers Employed by a Family Member 38

7A.13 Capital Gains Income..... 38

7A.14 Disability Income 39

7A.15 Dividends and Interest Income..... 39

7A.16 Employment Offers and Contracts..... 39

7A.17 Foreign Income 39



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.18 K-1 Income/Loss on Schedule E of the 1040s	40
7A.19 Non-Taxable Income	40
7A.20 Note Income	40
7A.21 Rental Income	41
7A.22 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options-Performed Based.....	44
7A.23 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options – Time Based	46
7A.24 Retirement Income	47
7A.25 Royalty Income	48
7A.26 Self Employed Income General Requirements	48
7A.27 Sole Proprietorship (Includes Schedule C and Schedule F)	49
7A.28 Partnerships/S-Corporation	49
7A.29 C-Corporation	50
7A.30 Secondary Self-Employment Income.....	50
7A.31 Self-Employment Co-Borrower Income	50
7A.32 Social Security Income	51
7A.33 Teacher Contractors and Income	51
7A.34 Temporary Leave Income.....	51
7A.35 Trust Income	53
Section 8 Valuation Requirements.....	54
8A.1 General Appraisal Requirements.....	54
8A.2 Primary Valuation Requirements	54
8A.3 Valuation Waterfall.....	55
8A.4 Properties Located in a Disaster Area	56
Section 9 Property Project Requirements.....	57
9A.1 Condominiums Warrantable.....	57



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

9A.2 Planned Unit Development (PUD)	58
9A.3 Ineligible Condominium and PUD Projects.....	58
Section 10 Title Insurance	60



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Section 1 Loan Eligibility

1A.1 Ability to Repay (ATR)

No mortgage loan may be originated under the programs unless the loan satisfies the “Ability to Repay” provisions dictated by the CFPB in 12 CFR Part 1026.43 (also known as Qualified Mortgage Rule). For each loan, the underwriter must make reasonable and good faith determination, based on verified and documented information, that the borrower has a reasonable ability to repay the loan according to its terms. The underwriter will evaluate, at a minimum, the following eight factors in making this determination:

- Current or reasonable expected income or assets.
- Current employment status
- The month payment on the covered transaction
- The monthly payment on any simultaneous loan
- The monthly payment for mortgage-related obligations
- Current debt obligations, alimony, and child support
- The monthly debt-to-income ratio or residual income
- Credit history

For any loan that is designated as a “Qualified Mortgage Loan” having a rebuttable presumption of compliance with the “Ability to Repay” requirement under the Qualified Mortgage Rule, the underwriting determination must show that the borrower has sufficient residual income or assets to meet living expenses after considering the borrower’s income and debt obligation.

The income documentation must support the Ability to Repay requirements (ATR).



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

1A.2 Age of Documentation

Topic	Age of Documentation
Age of Credit Documents	The age of the credit documentation used to determine eligibility must be no more than 90 days from the Note Date.
Age of Collateral Documentation	<ul style="list-style-type: none"> • AVM must be dated within 60 days of the Note Date • Property inspection when AVM used as the valuation must be dated within 120 days of the Note Date • Appraisal products (effective date) must be no older than 180 days from Note Date. After 120 days, an acceptable 1004-D recertification of value is required. • HOA Questionnaires must be no older than 180 days from the Note Date • Q&E report must be dated within 60 days of the Note Date • Title Policy must be dated within 120 days of the Note Date

1A.3 Occupancy Types

The feasibility of a borrower occupying the subject property must be considered when the borrower indicates the property will be their primary residence. A full explanation is required for any red flags or inconsistencies noted in the last 12 months.

1A.3(a) Primary Residence

A primary residence is a property that at least one (1) borrower occupies as their primary residence and typically occupies or will occupy for most of the year. The property's location is convenient to the borrower's principal place of employment.

A borrower may not maintain more than one primary residence at any given time.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

1A.4 Borrower Eligibility

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note.
- All borrowers must have a social security number.
- An Individual Tax Identification Number (ITIN) is not permitted.
- Each borrower must be an individual.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

1A.4(a) U.S. Citizens

A citizen of the United State or of a United States Possession or Territory are eligible borrowers.

U.S. citizens are eligible for financing.

Income earned outside of the U.S. and not claimed on the borrower's U.S. tax returns are ineligible for qualifying purposes.

1A.4(b) Permanent Residents

Permanent Residents documentation requirements:

- Alien Registration Receipt Card (USCIS Form I-551, green card), or
- A passport stamped processed for I-1551, Temporary evidence of lawful admission for permanent residence. Valid until _____, Employment authorized. It must be evidence that the holder has been approved for, but not issued, a Permanent Resident card.
- If the Permanent Resident Card is expiring with in 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.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

1A.4(c) Inter Vivos Revocable Living Trust Requirements

An inter vivos (living) revocable trust is a trust that an individual creates during his or her lifetime, becomes effective during its creator's lifetime, and can be changed or canceled by the creator at any time, for any reason, during that individual's lifetime. The company will accept vesting in an inter vivos revocable trust for a second lien mortgage that is secured by a one-family primary residence, so long as the following eligibility criteria are satisfied.

- The inter vivos revocable trust must be established by a natural person, it may be established solely by one individual or jointly by more than one individual.
- No inter vivos revocable trusts that permit powers of attorney will be permitted.
- A copy of the fully executed trust agreement with all amendments must be provided to verify the terms of the trust.
 - An inter vivos revocable trust will be considered eligible vesting if it meets the following requirements:
 - The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime.
 - The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime.
 - The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary, provided that the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. For owner-occupied properties, at least one individual establishing the trust must occupy the security property and sign all applicable mortgage loan documents.
 - The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees 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 relevant state.
 - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are "borrower(s)" under the mortgage or deed of trust note.
 - The mortgage and trust documents must meet Fannie Mae eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter vivos revocable trusts.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

- Title to the mortgaged property may be vested: solely in the trustee(s) of the inter vivos revocable trust, or jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.
- The title insurance policy (or ownership report, where applicable) must ensure full title protection to the lender and must state that title to the mortgage property is vested in the trustee(s) of the inter vivos revocable trust.
- Title held in the trust must not diminish the mortgagee's rights as creditor, including the right to have full title to the security property vested in the mortgage should foreclosure proceedings have to be initiated to cure a default under terms of the related mortgage.
- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or-co-borrower)

1A.4(d) Spousal Property Rights

Certain states require spousal signatures on second mortgage transactions to protect a lender's rights as creditor. The spouse or domestic partner of any person who has interest in the property is required to sign the security instrument if his or her signature is necessary under applicable law to waive any property rights, he or she has by virtue of being the borrower's spouse or domestic partner. Individual situations should follow the direction and instructions of the issuing title commitment provider as signatory requirements can vary.

Non-Borrower Spouse

All owners of the homestead and their spouses must consent to the extension of credit by executing the deed of trust. Non-borrower spouses, regardless of their ownership interest in the homestead property, have the right to cancel a loan transaction.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

1A.4(e) Ineligible Borrowers

- Non-occupant co-borrowers
- Non-permanent residents
- Foreign Nationals
- Borrower with diplomatic immunity
- Land trusts
- IL Land Trust
- Irrevocable trusts
- Bank trusts
- Qualified Personal Residence trusts
- Blind trusts
- Real estate trusts
- Limited partnerships, general partners, corporations, and limited liability companies
- Borrowers with only an ITIN

1A.4(f) Certification of Trust

For properties in California, a CA Trust Certification completed by the borrower or borrower's attorney is acceptable in lieu of the full trust documents. The title commitment is still required. Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, this exception cannot be applied, and the complete trust documents must be provided. This exception to trust documentation is ONLY for properties located in California.

1A.4(g) Title Requirements

Loan amounts less than or equal to \$250,000

- Owner and Encumbrance Property Report – dated within 60 days of the note date.
- Property Tax Information required to be verified

Loan amounts greater than \$250,000

- Full ALTA Loan Policy – dated within 120 days of the note date.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

1A.4(h) Legal Documents and Riders

See the [Fannie Mae Selling Guide](#) B8-5-02 for the following Rider and documents:

- Revocable Trust Rider (Sample Language)
- Signature Requirements for Mortgages to Inter Vivos Revocable Trusts
 - Signature Requirements for California
 - Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts
 - Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who is Not Both a Settlor and a Credit Applicant
 - Form of Signature Required on Security Instrument for All Trustees
 - Form of Settlor/Credit Applicant's Signature Acknowledgement Required on Security Instrument
 - Optional Limitation on Trust liability

The following trusts are not permitted:

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

Section 2 Property Types

2A.1 Single Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

2A.2 Condominium

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project is created to local and state statutes. The structure is two or more units with interior airspace individually owned. The balance of the property (land and building) is owed in common by individual unit owners. Condominiums must be warranted to [Fannie Mae](#) guidelines.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

2A.3 Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all the following requirements must be met:

- Each unit owner holds title to the lot and the improvements on the lot.
- The HOA holds title to the common elements.
- The unit owners have a right to the use of the common elements.
- The unit owners pay a fee to the HOA to maintain the common elements for their benefit.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects.

These projects:

- Have no common property and improvements.
- Do not require the establishment of and membership in an HOA.
- Do not require payment of assessments.

2A.4 Multiple Financed Properties

Financed properties held in the name of an LLC or other corporation, commercial properties, timeshares and unimproved land can be excluded from the calculation of the number of properties financed.

Properties held in the name of the LLC or other corporation where the borrower is personally obligated on the mortgage cannot be excluded from the calculation.

Definitions of Ownership

- Partial or joint ownership is considered the same as total ownership in the property
- 1–4-unit residential properties, where the borrower is personally obligated on the mortgage(s)
- Applies to the total number of financed properties, not the number of mortgages on the property
- Is cumulative for all borrowers (though jointly financed properties are counted as one)



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

2A.5 Ineligible Property Types

The following are ineligible property types:

- 2-4 units
- Non-warrantable condominiums
- Cooperatives
- Timeshares
- Unique Properties
- Log Homes
- Condotels
- Houseboats
- Manufactured homes
- Agricultural property (working farm or ranch)
- Mixed-use properties
- Commercial Properties
- Properties greater than 10 acres
- Island of Hawaii Properties in Lava Zones 1 and 2
- Properties on Indian Reservations
- Properties in litigation
- Properties held as a leasehold
- Properties with C5 or C6 Condition Rating
- Properties with less than 750 square feet
 - Condominiums with less than 400 square feet
- Properties used as agricultural or zoned for, commercial, or industrial



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Section 3 Credit

Credit Score Requirements:

A minimum of 2 credit scores are required for each borrower. Rapid re-scores are not allowed unless the re-score is the result of an error on the credit report. Errors must be confirmed by the creditor.

Credit		
Number of Borrowers	Number of Scores Present per Borrower	Methodology Applied
1	1	Ineligible
1	2	Lower of 2 as represented
1	3	Middle of 3 as represented
2 or more	1	Ineligible
2 or more	2	Determine lowest score for each borrower, lowest score of that result is representative score
2 or more	3	Determine middle score for each borrower, lowest score of that result is representative score

3A.1 Minimum Tradeline Requirements

All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation authenticates the dispute.

Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.

Disputed tradelines do not need to be resolved/removed from the credit report.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

3A.2 Disputed Tradelines

All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation authenticates the dispute.

Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.

Disputed tradelines do not need to be resolved/removed from the credit report.

3A.3 Frozen Credit

Credit reports with bureaus identified as "frozen" are required to be unfrozen and current credit reports with all bureaus unfrozen is required.

3A.4 Housing History

- 0x30x12
- If borrower's mortgage history is less than 12 months, prior rental housing or prior mortgage history required.
- Borrowers without a 12-month housing history are ineligible.

3A.5 Credit Events

- Past Due Accounts: must be brought current.
- Collection Accounts or Charge-Offs: must be paid off at, or prior to closing if account is > \$1,000 or if aggregate of accounts exceeds: \$2,500.
- Judgements, and Liens (including tax liens): must be paid off at, or prior to closing.
- Bankruptcies (Chapter 7, 11, 13): Must be seasoned for 4 years from application date; borrowers with multiple bankruptcies are ineligible.
- Foreclosure or Pre-Foreclosure (120+ days delinquent): Must be seasoned for 4 years from application date.
- Deed-in-Lieu of Foreclosure: must be seasoned for 4 years from application date.
- Short Sale: must be seasoned for 4 years from application date.
- Notice of Default (NOD): must be seasoned for 4 years from application date.
- Forbearance Agreements: Borrower(s) must have completed/exited the forbearance agreement and made no less than 4 months acceptable payments prior to the application date.
- The 12-month housing history requirement would include pre-forbearance and post-forbearance payments. The months during forbearance are not considered in meeting the 12-month requirement.
- No waiting period required if the borrower(s) accepted but did not use the forbearance plan.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

3A.6 Credit Inquiries

Recent credit inquiries within 120 days of the credit report date not resulting in a new account on the credit report will require a letter of explanation from the borrower. If additional credit was obtained, a verification of the debt must be acquired, and the new debt must be included in the DTI.

3A.7 Inquires and Undisclosed Debt

All debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. Recent inquiries may indicate that the borrower has been actively seeking new credit accounts.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not obtained any additional debt that is not reflected on the loan application. If additional credit was obtained, verification of that debt must be provided, and the borrower must be qualified with monthly payment. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated, which includes a letter of explanation for each inquire and evidence of any new debt.

To help identify undisclosed debt not reflected on the initial credit report but obtained up to and including the day of closing, the following is required:

- A single repository refreshed Soft Credit Pull or third-party undisclosed debt monitoring (UDM) report, for the purpose of determining if the borrower(s) has incurred any new debt.
- The Soft Credit Pull or UDM report should be obtained as close as possible to closing but at least within 10 days of the Note Date.
- If any new credit inquiries appear on the Soft Credit Pull or UDM report, the borrower(s) must address those inquiries.
- Any new debt must be considered in the DTI and DU/LPA rerun if tolerances have been exceeded.

A Soft Credit Pull or UDM report must be included with each credit package.

Lenders must have a policy to monitor undisclosed debt through closing (note date).

The Soft Pull should include any new obligations that were not identified on the initial tri-merge credit report. The Soft Pull should not include:

- FICO
- Previously disclosed obligations from the initial tri-merge credit report



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

When the Soft Credit Pull provides more information than is required, that information must be considered and could negatively impact the loan. For example:

The Soft Credit Pull includes a credit score(s) for any of the borrowers.	A new tri-merged credit report for all borrower(s) must be obtained.
The Soft Credit Pull includes updated payment histories for existing tradeline(s) shown on the original credit report.	If any new derogatory credit is revealed, a new tri-merged credit report for all borrower(s) must be obtained.
The Soft Credit Pull includes updated monthly payments and updated outstanding balances for existing tradeline(s) shown on the original credit report.	The new monthly payments must be considered.

Underwriting will also be running a MERS report to determine if the borrower has undisclosed liens, or another mortgage being established simultaneously.

Any debts identified post-closing affecting loan eligibility guidelines may impede the salability of the loan.

Section 4 Liabilities

4A.1 Revolving Debt

- The monthly payment on revolving accounts with balance must be included in the borrower's DTI, regardless of the number of months remaining.
- If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of \$10 or 5% of the account balance.
- Payments reflected on a credit report may only be excluded if the account is documented as paid in full and closed. Debts being paid off with the CES transaction are not required to be closed.
- Revolving debt may be paid off to qualify before or at closing. Documentation must be provided to evidence the revolving debt has been paid off in the closing package (i.e., evidence of the debt being paid off and 2 months assets. If paid off at closing, the debt payoff must be reflected on the final Closing Disclosure).
- Gift funds may not be used to pay off accounts for qualifying.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

4A.2 Installment Debt

- Installment debts with less than 10 months remaining can be excluded from the DTI.
- Lease payments must be included in the DTI regardless of the months remaining.
- Real estate owned by the borrower where the borrower is not on the Note may be excluded from the DTI.
- Property tax, insurance and HOA dues on the property must be documented and the full amount included in the DTI.
- PITIA on real estate owned pending sale must be included in the DTI.
- Payment related to a 401(K) loan does not need to be included in total debt obligation.
- For alimony payments, where the divorce was finalized before January 1, 2019, in lieu of including the debt in the DTI, the alimony payment can be deducted from qualifying income. For divorces finalized after January 1, 2019, alimony payments must be treated as debt.
- Child support payments with less than 10 months remaining do not need to be included in the DTI.
- Installment debt may be paid off to qualify at or before closing.
 - If payoff at closing, evidence the installment debt was paid off must be in the file.
 - If payoff prior to closing, document funds used and confirm paid in full.
- Gift funds may not be used to pay off debt to qualify.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

4A.3 Income Taxes and Payment Plans

If the most recent federal tax return, tax extension, or tax transcripts indicate a borrower owes money to the IRS, the following are required:

- Evidence of payment of taxes due in the form of a cancelled check, credit card statement, bank statement, or screenshot of the receipt from the taxing authority paid online.
- If taxes due have not been paid, sufficient liquid assets to pay the debt must be documented.
- When a borrower has entered into an installment agreement with the taxing authority to repay delinquent income taxes, the monthly payment amount may be included in the DTI in lieu of requiring payment in full if:
 - There is no indication on the credit report, preliminary title commitment, or other loan file documentation that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The following documentation must be obtained:
 - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due, and
 - At least one payment must have been made prior to closing, and
 - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.

4A.4 Open 30-Day Charge Accounts

Balances required to be paid monthly are not included in the DTI however verified assets must be reduced by the outstanding balance when calculating fundings to close and reserves.

4A.5 Home Equity Lines of Credit (HELOC) – Subject Property

- HELOCs with a current outstanding balance and no payment reflecting on the credit report do not need to have a payment documented however, the payment history must have reported within the past 90 days.
- Existing HELOCs must be paid in full and closed either prior to or at closing.
- For HELOC loans paid off at closing, the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document closing.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

4A.6 Student Loans

For all student loans, whether deferred, in forbearance, or in repayment, a monthly payment must be included in the DTI.

If a monthly payment is reflected on the credit report, the reported monthly payment must be used for qualifying.

If the credit report does not reflect a monthly payment, or if it shows \$0 as the monthly payment, the monthly payment may be documented as follows:

Loan payment indicated on student loan documentation verifying monthly payment is based on income driven plan.

For deferred loans or loans in forbearance:

- 1% of the outstanding loan balance (even if this amount is lower than the actual fully amortizing payment), or
- A fully amortizing payment using the documented loan repayment terms.

4A.7 Contingent Liabilities

When the borrower is obligated on a debt but is not the party who is repaying the debt, the payment may be excluded from the borrower's recurring monthly obligations. This policy is not applicable if the other party is an interested party to the transaction (such as an originator or realtor).

Non-mortgage debt paid by others can be excluded from the DTI if:

- There is no delinquency on the account over the past 12 months.
- 12 months canceled checks or bank statements are provided by the other party making the payments.

Mortgage debt by others can be excluded from the DTI if:

- The party making the payments is obligated on the mortgage debt.
- There have been no delinquencies in the past 24 months.
- 12 months cancelled checks or bank statements are provided by the other party making the payments.
- The borrower is not using rental income from the property to qualify.
- The referenced property must be included in the count of financed properties.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

4A.8 Business Debt in Borrower's Name

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

The payment does not need to be included in the DTI if:

- The account does not have a history of delinquency.
- The business provides evidence the obligation was paid out of company funds (such as 12 months cancelled checks).
- The Seller's cash flow analysis of the business took payment of the obligation into consideration.

The payment must be included in the DTI if:

- The business does not provide sufficient evidence that the obligation was paid out of the company funds.
- The business provides acceptable evidence of its payment of the obligation, but the underwriter's cash flow analysis of the business does not reflect any business expense related to the obligation.
- The account has a history of delinquency.
- To ensure that the obligation is counted only once, the Seller should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account.

4A.9 Court-Ordered Assignment of Debt

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement), the underwriter is not required to count the liability as part of the borrower's recurring monthly debt obligations.

The underwriter is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The underwriter cannot disregard the borrower's payment history for the debt before it is assignment.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Section 5 Assets

5A.1 Eligible Assets

Eligible assets must be held in a U.S. financial institution and sourced and seasoned for a minimum 60 days.

5A.2 Joint Assets

For joint accounts, when an account owner is a non-borrowing individual, an access letter is required. The access letter must specify the percentage or amount of assets the borrower is entitled to.

5A.3 Large Deposits

- Large deposits exceeding 50% of the borrower's total monthly qualifying income or any large deposit that is out of the ordinary must be verified and explained by the borrower with the source of such funds documented.
- Large deposits that cannot be sourced and explained may be subtracted from the verified asset amount.

5A.4 Checking, Savings, Money Market Accounts and CDs.

- 2 complete months bank statements required.
- In lieu of bank statements, use of a Fannie Mae approved asset vendor is acceptable if the data includes individual transaction details over a two-month period.

5A.5 Publicly Traded Stocks, Bonds, Mutual Funds

- 2 months financial statements required.
- Evidence of liquidation is required if funds are used to close a transaction.
- Value discounted to 70% for reserves.

5A.6 Retirement Accounts

- 2 complete months financial statements required.
- Evidence of liquidation is required if funds are needed to close a transaction.
- If borrower is $> 59 \frac{1}{2}$ years old, then 70% of the vested value after the deduction of any outstanding loans.
- If the borrower is $\leq 59 \frac{1}{2}$ years old, then 60% of the vested value after reduction of any outstanding loans.
- Evidence of access to funds required for employer-sponsored retirement accounts.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

5A.7 Cash Value of Life Insurance and Annuities

- Most recent statement(s) covering at least a 2-month period.
- 100% of the value can be used unless the account is subject to penalties.
- Evidence of liquidation is required if funds are used to close the transaction.

5A.8 Business Funds

Allowed for funds to close only.

Documentation Requirements:

- Personal and business tax returns for the entity the funds are being withdrawn from and a year-to-date P&L and balance sheet are required, and either option one or option two below.
- Option One:
 - Cash flow analysis required using most recent 3 months business bank statements to determine no negative impact to the business.
 - Business bank statements must not reflect any NSF or overdrafts.
 - If borrower(s) ownership in the business is less than 100%, the following requirements must be met.

Borrower(s) must have majority ownership of 51% or greater.

The other owner(s) of the business must provide an access letter to the business funds. Borrower(s) percentage of ownership must be applied to the balance of business funds for use by borrower(s).

- Option Two:
 - A letter from a qualified disinterested third-party CPA can be provided confirming:

The amounts of business assets that can be used must correspond to the borrower's percentage of ownership in the business.

The funds are not a loan, and withdrawal of the funds will not adversely affect the business.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

5A.9 Unacceptable Sources of Funds

- Gift Funds
- Proceeds from a personal or unsecured loan
- A cash advance on a revolving charge account or unsecured line of credit
- Foreign assets
- Non-marketable securities
- Profit sharing plans
- Individual Development Accounts
- Pooled Savings
- Salary Advances
- Funds in custodial or “in trust for” account
- Cryptocurrency
- Cash on hand
- Loans from non-institutional lenders

Section 6 Employment and Income Stability

6A.1 Stability of Income

Income is a key factor used to determine a borrower’s capacity or ability to repay the loan. Supporting documentation must be obtained either from the borrower or directly from the borrower’s employer or financial institution.

Stable monthly income is the borrower’s verified gross monthly income from all acceptable sources, which has been received for at least the past 2 years and can reasonably be expected to continue for at least the next 3 years. For each income source used to qualify the borrower, both the source and the amount of income must be analyzed to determine stability.

When the borrower has less than a 2-year history of receiving income, the underwriter must provide a written analysis to justify the determination that the income used to qualify the borrower is stable.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

6A.2 Declining Income

When the borrower has a declining income, the most recent 12 months of income should be used for qualifying.

In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

6A.3 Stability of Employment

A minimum of 2 years of continuous employment should be verified for each borrower. If the borrower has been on their current job for less than two years, verification of prior employment will be required.

6A.4 Gaps of Employment

- Gaps of employment > 30 calendar days during the most recent 2-year period, based on the application date, must be explained by the borrower in writing.
- Extended gaps of employment, 6 months or greater, require a documented 2-year work history prior to the absence, and
 - The borrower must be employed by their current employer for a minimum of 6 months to include the income for qualifying purposes.

6A.5 Prior Military or Education Experience

If a borrower was in the military or in school during the preceding 2 years, the following documentation is required, respectively:

- Military discharge documents, or
- College transcripts



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

6A.6 Unacceptable Sources of Income

- Any source that cannot be verified
- Income that is temporary
- Rental income (boarder income) received from the borrower's primary residence
- Expense account payments
- Retained earnings
- Deferred compensation
- Rental income from a second home
- Projected income that will begin after Note Date
- Foreign income unless it is declared on personal income tax returns
- Education Benefits
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations
- Non-occupant income
- Employment related assets as qualifying income (Asset Depletion)

Section 7 Income Documentation Requirements

7A.1 General Requirements

- 4506-C must be signed and completed for all borrowers.
- Borrowers Authorization form signed by all borrowers.
- The loan file must include an income worksheet detailing income calculations. Income Analysis for the borrowers with multiple businesses must show the income/loss details separately, not in aggregate.
- Fannie Mae Form 1084 or Freddie Mac 91, or the equivalent is required for self-employed analysis. The most recent forms should be used based on the application date. Form instructions must be followed.
- Tax returns must meet the following requirements when used for qualifying:
 - Personal income tax returns must be complete with all schedules (W2 forms, K1s, etc.) and must be signed. In lieu of a signature, personal tax transcripts for the corresponding year(s) may be provided.
- Business income tax returns must be complete with all schedules and must be signed. In lieu of a signature, business transcripts for the corresponding year(s) may be provided.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.2 Tax Transcripts

Transcripts are required for all borrowers whose tax return income is used to qualify the loan and will be used to validate the income documentation. The transcripts and supporting income documentation must be consistent.

Tax Transcripts

- Tax transcripts for personal tax returns for the most recent 2 years are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file.
- Borrower obtained tax transcripts are not allowed.

When the most recent year's tax returns have been filed, and where the IRS has not processed the forms, the following alternative documentation is required:

For Tax Transcripts:

- Two prior years' tax transcripts
 - Example:
 - Borrower provided 2022 and 2023 tax returns
 - 2023 tax returns have been filed but the IRS has not yet processed the returns
 - Required transcripts will be 2021 & 2022
- For the most recent years' tax return, provide proof of e-filing with the IRS. This is generally an e-file receipt, or screen shot from the borrower's online IRS account that confirms receipt of the tax returns, and
- Proof of payment in full tax liability or receipt of refund, as application, and
- A processed 4506-C that confirms "no record of return found" with the IRS.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

7A.3 Verbal Verification of Employment (VVOE) Requirements: Wage Earner

Verbal Verification of Employment (VVOE) is required for all borrowers with qualifying income.

- If an employer affirmatively states that a borrower's employment is likely to cease, the loan is ineligible for purchase.
- VVOE must be performed within 10 days prior to the Note date. If the VVOE is completed more than 10 days before the Note date, a post-closing VVOE is acceptable if it supports the information used to qualify for the borrower.
- The VVOE should include the following information:
 - Date of contract.
 - Name and title of person contacting the employer.
 - Name of employer.
 - State date of employment.
 - Employment status and job title.
 - Name, phone number, and title of contact person at employer.
 - Independent sources are used to obtain employer phone numbers.
- If the employer uses a third-party employment verification vendor, the Seller must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the VVOE requirements.

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



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

7A.4 Verbal Verification of Employment (VVOE) Requirements: Self Employment

Verification of the existence of borrower's self-employment must be verified through a third-party source and no more than 30 calendar days prior to the Note date. If the verification is completed more than 30 calendar days before the Note date, a post-closing verification is acceptable if it supports the information used to qualify the borrower.

- Third party verification requirements:
 - Third party verification can be from a CPA, regulatory agency, or applicable licensing bureau. If a CPA letter is utilized, it must indicate that the borrower has been self-employed for a minimum of 2 years.
 - Listing and address of the borrower's business.
 - Name and title of person completing the verification and date of verification.
 - If the foregoing option is not possible then: Evidence of current work (executed contracts or signed invoices that indicates the business is operating on the day the Seller verifies self-employment).
 - Evidence of current business receipts within 10 days of the loan closing date (payment for services rendered).
 - Seller certification that the borrower's business is open and operating (Seller confirmed through a phone call or other means); or
 - Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

7A.5 Written Verification of Employment (WVOE)

- WVOEs may be required for a borrower's income sourced from commissions, overtime and/or other income when the income detail is not clearly documented on the paystubs.
- Paystubs and W2s are required unless a WVOE has been obtained by a [Fannie Mae Approved Employment & Income Vendor](#) and it contains sufficient information to analyze and calculate the income.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.6 Wage Earning Income

Paystubs must meet the following requirements:

- Clearly identify the employee/borrower and the employer.
- Reflect the current pay period and year-to-date earnings.
- Must be computer generated.
- Year-to-date pay with most recent pay period at the time of application.

W2s must be complete and be a copy provided by the employer. W2s must meet the following requirements:

- Clearly identify the employee/borrower and employer.
- Must be computer generated.

7A.7 Salaried Income

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- W2s for the most recent 2-year period.
- VVOE for all borrowers with qualifying income.
- Salaried borrowers who also own 25% or more of a business or other entity are considered self-employed. In addition to the documentation noted in this section, self-employed income documentation must be provided.
- Salaried borrowers who file a Schedule C (sole proprietorship) will be required to provide self-employment documentation. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.

7A.8 Fluctuating Hourly, Variable Hourly, and Part-Time Income

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- 2 years W2s.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.

7A.9 Commission Income

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- 2 years W2s.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

7A.10 Overtime and Bonus Income

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- VVOE.
- Stable to increasing income should be averaged over a 2-year period.

7A.11 Alimony, Child Support, Separate Maintenance

- Legal agreements such as a divorce decree, court ordered separation agreement, child support agreement, or other legal agreement reflecting the income will continue for at least 3 years beyond the closing date of the loan.
- Evidence of receipt of fully, regular, and timely payments for the most recent 12 months.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.
 - Not required for Child Support

7A.12 Borrowers Employed by a Family Member

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- W2s or tax returns for the most recent 2-year period.
- VVOE.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.
- The borrower's potential ownership in the business must be addressed by obtaining a letter from a qualified disinterested third-party.

7A.13 Capital Gains Income

- Document a 2-year history of positive capital gains income by obtaining copies of borrower's signed and dated federal income tax returns for the most recent 2 years, including IRS form 1040, Schedule D.
- Obtain copies of 2 most recent months or most recent quarterly investment account statements (minimum 2 months' history) reflecting year-to-date activity supporting borrower's asset position and trading activity to ensure the current year's trading activity is consistent with previous year.
- Obtain year-end statements or other documentation corresponding to the tax years analyzed for the capital gains income supporting a current asset position consistent with previous levels.
- Document sufficient assets remain after closing to support continuance of the capital gain income at the level used for qualifying.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.14 Disability Income

- A copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amounts of payments, frequency of payments, and if there is an established termination date.
- Termination date may not be within 3 years of the Note Date.

Note: Reaching a specific age may trigger a termination date depending on the policy.

7A.15 Dividends and Interest Income

- Tax returns for the most recent 2-year period.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.
- Documented assets to support the continuation of the interest and dividend income.
- If any portion of the assets used to generate the interest and/or dividend income are used for down payment and closing costs, the reduction of those assets must be taken into consideration when calculating the income used for qualifying.

7A.16 Employment Offers and Contracts

Start Date Prior to Loan Closing:

If the borrower is scheduled to begin employment under the terms of an employment offer or contract, an executed copy of the borrower's offer or contract for future employment and anticipated income must be obtained. A paystub that includes sufficient information to support the income used to qualify the borrower based on the offer or contract must be provided prior to the delivery of the loan.

Start Date After Loan Closing:

If the borrower will not begin employment until after loan closing, the employment and income from this source is ineligible for qualifying.

7A.17 Foreign Income

- Most recent YTD paystub with year-to-date earnings of no less than 30 days.
- W2s or the equivalent for the most recent 2 years.
- Income must be reported on U.S. tax returns for the most recent 2-year period.
- VVOE.
- Tax transcripts. See specific requirements under the Tax Transcript section.
- All income must be converted to U.S. currency.
- All foreign documents must be translated to English.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

7A.18 K-1 Income/Loss on Schedule E of the 1040s

- If the income is \$0 or positive, stable, and not used for qualifying, the K1 is not required.
- K-1 losses do not need to be considered in qualifying when ownership in the business is less than 25%.
- If the borrower has less than 25% ownership and income is used for qualifying:
 - Verification of Employment requirements apply.
 - Year-to-date income must be verified if the most recent K1 is more than 90 days from the Note date.
- If the borrower has 25% or more ownership and income is used for qualifying:
 - Verification of Employment requirements apply.
 - Partnership/S-Corp and self-employment documentation requirements apply.
 - 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.

7A.19 Non-Taxable Income

- Income types include child support, military rations/quarters, disability, foster care, etc.
- Documentation must be provided to support continuation for 3 years.
- Income may be crossed up by 25%. If the actual amount of taxes that would generally be paid by a wage earner in similar tax bracket is more than 25% of the borrower's non-taxable income, that amount may be used to develop the adjusted gross income.
- Tax returns for the previous 2 years must be provided to confirm income is non-taxable.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.

Note: The requirements for Tax Returns and Transcripts do not apply to Child Support or Military Rations/Quarters.

7A.20 Note Income

- Copy of the note must document the amount, frequency, and duration of the payment.
- Note Income must continue for at least 3 years.
- Bank statements to support receipt of Note income since the last filed tax returns.
- Tax returns for the previous 2 years must be provided to evidence Note income.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.21 Rental Income

Generally, if a borrower has a history of renting a property, the income will be reported on IRS Form 1040 Schedule E of the borrower's personal tax returns or on Rental Real Estate income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the property or if in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the underwriter may be justified in using a fully executed current lease agreement.

Examples of scenarios that justify the use of a lease agreement are:

- Instances in which the borrower purchased the rental property during or after the last tax return filing; or
- Instances in which a property experienced significant rental interruptions such that income is not reported on the recent tax return, for example a major renovation to the property in the prior year that affected the rental income.

Documenting Rental Income from Property Other than the Subject Property

- Most recent signed personal income tax returns, including Schedule 1 and Schedule E.
- Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception.

Reconciling Partial or no Rental History on Tax Returns

To calculate qualifying rental income, the underwriter must determine whether the rental property was in service for the entire tax year or only a portion of the year. In some situations, the underwriter's analysis may determine that using the alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This guidance may be applied to refinances of a subject property or the other rental properties owned by the borrower.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

If the borrower can document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the underwriter may determine qualifying rental income by using:

If....	Then....
<ul style="list-style-type: none"> The property was acquired during or after the most recent tax filing year, 	<ul style="list-style-type: none"> The underwriter must confirm the purchase date using the settlement statement or other documentation. If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for the property.
<ul style="list-style-type: none"> The rental property was out of service for an extended period, 	<ul style="list-style-type: none"> Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service. Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
<ul style="list-style-type: none"> Conversion of a departing residence to an investment property, 	<ul style="list-style-type: none"> Form 1007 or Form 1025, as applicable. Fully executed lease agreement. Evidence of receipt of security deposit.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

Calculating Monthly Qualifying Rental Income or Loss

The underwriter must establish a history of property management experience by obtaining one of the following:

- The borrower's most recent signed personal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and fair Rental Days of 365.
- If the property has been owned for at least one year but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the personal tax returns; or
- A current signed lease may be used to supplement a personal income tax return if the property was out of service for any period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

Method for Calculating Income

- Personal Income Tax Returns, Schedule E:
 - When Schedule E is used to calculate qualifying rental income, the underwriter must add back any listed depreciation, interest, homeowner's association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.
 - If the property was in service:
 - For the entire tax year, the rental income must be averaged over 12 months; or
 - For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.
- Lease Agreements for Form 1007 or Form 1025:
 - When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the Seller must calculate the rental income by multiplying the gross monthly rent(s) by 75% (this is referred to as "Monthly Market Rent" on the Form 1007). The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.22 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options-Performance Based

History of Receipt:

- Two consecutive years required; it is acceptable to use a rolling 24-month history of receipt vs. calendar years plus year-to-date.
- To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance:

- Documentation must support continuance for at least 3 years.

Documentation Requirements:

- Year-to-date paystubs documenting all year-to-date earnings, including receipt of any RSUs.
- Two years W2s.
- Verbal Verification of Income (“VVOI”).

Or

- Written VOE documenting all year-to-date earnings and the earnings for the most recent 2 calendar years.
- Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSUs.

Additional Documentation Requirements:

- Evidence the stock is publicly traded.
- Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU agreement, offer letter).
- Vesting Schedule(s) currently in effect detailing past and future vesting.
- Evidence of receipt of previous year(s) payout(s) of RS/RSUs (e.g., year-end paystubs, employer-provided statement paired with brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pretax).



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Calculation of Income:

Based on the form in which vested RSUs are distributed to the borrower (shares or cash Equivalent), the underwriter must use the applicable method to calculate the monthly income:

- RSU Distributed as Shares:
 - Multiply the 52-week averages stock price as of the application date by the total number of vested shares distributed (pre-tax) to the borrower in the past 2 years, then divide by 24.
 - Example: If 200 vested shares were distributed (pre-tax) in the past 2 years and the 52-week average stock price as of the application-received date is \$10, multiply 200 x \$10 then divide by 24 = \$83.33 monthly income.
- RSU Distributed as Cash Equivalent:
 - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past 2 years and divide by 24.

Note: When the calculation results in declining income from the RS or RSU source, this must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The underwriter should provide a written justification for including the declining income for qualifying.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.23 Restricted Stock (RS), Restricted Stock Units (RSUs) and Stock Options-Time Based

History of Receipt:

- One year required; it is acceptable to use a rolling 12-month history of receipt vs. calendar years plus year-to-date.
- To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction.

Continuance:

- Documentation must support continuance for at least 3 years.

Documentation Requirements:

- Year-to-date paystub(s) documenting all year-to-date earnings, including receipt of any RS/RSUs.
- 1-year W2 from the most current calendar year.
- VVOI

Or

- Written VOE documenting all year-to-date earnings (including payout(s) or RS/RSUs) as well as earnings for the most recent calendar year.
- Employment and income verifications obtained through a third-party verification service provider are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSUs.

Additional documentation requirements:

- Evidence the stock is publicly traded.
- Documentation verifying that the vesting provisions are time-based (RS and/or RSU agreement, offer letter).
- Vesting schedule(s) currently in effect detailing past and future vesting.
- Evidence of receipt of previous year's payout(s) of RS/RSU (e.g. year-end paystub, employer-provided statement paired with brokerage or bank statement showing transfer of shares or funds) that must, at minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pre-tax).



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Calculation of Income:

Based on the form in which vested RS or RSUs are distributed to the borrower (i.e., as shares or its cash equivalent), the underwriter must use the applicable method(s) below to calculate the monthly income.

- RS or RSU Distributed Shares:
 - Multiply the 52-week average stock price as of the application date by the number of vested shares distributed (pre-tax) to the borrower in the past year, then divide by 12.
 - Example: If 50 vested shares were distributed (pre-tax) in the past year and the 52-week average stock price as of the application date is \$10, multiply 50 x \$10 then divide by 12 = \$41.67 monthly income.
- RS or RSU Distributed as Cash Equivalent:
 - Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

Note: When the calculation results in declining income from the RS or RSU source, this must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay the debt. The underwriter should provide a written justification for including the declining income for qualifying.

7A.24 Retirement Income

All retirement benefits, including annuity retirement benefits must have a minimum continuance of 3 years from the closing date to be considered as qualifying income.

Document verification off any of the following, including combination of documentation:

- Distribution or award letter; or
- Tax returns for tax transcripts from the prior year; or
- Most recent IRS 1099 form; or
- Last 2 months bank statements to document the regular deposit of payments.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.25 Royalty Income

Income received from royalty payments may be considered as qualifying income with the following requirements:

- Evidence of receipt for the most recent 12 months (if payments are received less than monthly, 24 months is required).
- Evidence royalty payments are likely to continue for at least 3 years.
- 2 years' person tax returns, including Supplemental Income and Loss Schedule E.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section.

7A.26 Self-Employed Income General Requirements

Borrowers who own twenty-five percent (25%) or more of a business or other entity, or where the borrower receives 1099 forms to document income, are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.

Income calculations should be based on the forms identified in the General Income Documentation Requirements section.

Profit and Loss Statements (P&L) and Balance Sheets

- Signed and Dated Year-to-date P&L statements and balance sheets are required if the loan closing is 90 days from the end of the last fiscal year.
- P&Ls and balance sheets are not required if the income is positive and not being used for qualifying or if the income is negative and represents less than 5% of the total income.
- If the tax return for the previous tax year has not been filed, a 12-month P&L statement and balance sheet for that period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, the following is required:
 - An executed copy of the borrower's extension requests for both personal and business tax returns.
 - Where a tax amount is owed to the IRS, evidence of proof of payment, or receipt of refund.

A processed 4506-C that confirms "no record of return found" with IRS is required.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.27 Sole Proprietorship (Includes Schedule C and Schedule F)

- 2 years' personal tax returns signed on or before the closing date. In lieu of signature, personal tax transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- Year-to-date P&L statement.
- Year-to-date balance sheet. Tax returns for the prior year are not a substitute for balance sheet.
- VVOE.
- Stable to increasing income should be averaged over 2 years

7A.28 Partnership/S-Corporation

- 2 years' personal tax returns signed on or before the closing date. In lieu of a signature, personal transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- 2 years' K-1 reflecting ownership percentage if counting any income from this source in qualifying (K-1, W2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- 2 years' business tax returns (1065s or 1120s) signed if 25% or greater ownership. In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- The due date for business returns for Partnerships and S-Corporations is typically March 15 with an extension for six (6) months or typically September 15. After the extension date has passed, the loan is not eligible without the filed tax return.
- Business returns and year-to-date financials are not required if the income reported is \$0 or positive, not declining and not counted as qualifying income.
- Year-to-date P&L if 25% or greater ownership.
- Year-to-date balance sheet if 25% or greater ownership.
- VVOE.
- Stable to increasing income should be averaged for 2 years.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

7A.29 C-Corporation

- 2 years' personal tax returns signed on or before the closing date. In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- 2 years' tax transcripts. See specific requirements under the Tax Transcripts section. The transcripts will be used to validate the income documentation used to underwrite the loan. The transcripts and supporting income documentation must be consistent.
- 2 years' business returns (1120) signed if 25% or greater ownership. In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- Business returns must reflect percentage of ownership for borrower.
- Year-to-date P&L if 25% or greater ownership.
- Year-to-date balance sheet if 25% or greater ownership.
- VVOE.
- Stable to increasing income should be averaged for 2 years.

7A.30 Secondary Self-Employment Income

- Business income reported on a borrower's individual income tax returns is not required to be used in qualification if the underwriter is only using income that is not derived from self-employment and self-employment is a secondary and separate source of income.
- Secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than 5% of the borrower's total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.
- Examples of income not derived from self-employment include salary and retirement income.

7A.31 Self-Employed Co-Borrower Income

- When the co-borrower income is derived from self-employment is not being used for qualifying purposes, the underwriter is not required to document or evaluate the co-borrower's self-employment income.
- Co-borrower self-employment losses reporting on 1040 tax returns or transcripts greater than 5% of borrower's total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

7A.32 Social Security Income

- Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first 3 years of the loan, the income may not be used.
- Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least 3 years.

7A.33 Teacher Contractors and Income

Teachers and school administrators who are employed based on an annually renewed contract, do not need to meet the three (3) year minimum continuance requirement if the following additional requirements are met:

- Annual contracts are common for the school district.
- Economic conditions of the area do not pose a threat to the demand for teachers; and
- The teacher/administrator has a minimum of two (2) years of experience.
- The number of paychecks the borrower receives per year must be considered when calculating the income. As an example, for a teacher who receives 10 paychecks per year, qualifying income is calculated as follows:
 - $(\text{Monthly salary} \times 10) / 12 = \text{qualifying income}$

7A.34 Temporary Leave Income

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

Note: Mandatory leave initiated by an employer, such as furlough or layoff, is not considered temporary leave regardless of an expected return to work date. For income from unemployment benefits received because of mandatory leave initiated by an employer, refer to the [Fannie Mae Selling Guide](#) for Public Assistance Income.

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



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Temporary Leave-Employment Requirements

- The borrower’s employment and income history must meet standard eligibility requirements.
- The borrower must provide written confirmation of their intent to return to work.
- The underwriter must document the borrower’s agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.
 - Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee’s system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents policy).
- The underwriter must receive no evidence or information from the borrower’s employer indicating that the borrower does not have the right to return to work after the leave period.
- The underwriter must obtain a verbal verification of employment. If the employer confirms the borrower is currently on temporary leave, the underwriter must consider the borrower as employed.
- The underwriter must verify the borrower’s income. The underwriter must obtain.
 - The amount and duration of the borrower’s “temporary leave income”, which may require multiple documents or sources depending on the type and duration of the leave period; and
 - The amount of the “regular employment income” the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

Note: Income verification may be provided by the borrower, by the borrower’s employer, or by a third-party employment verification vendor.

If the borrower **will** return to work prior to the first loan payment date, the underwriter can consider the borrower’s regular employment income in qualifying.

If the borrower **will not** return to work prior to the first loan payment date, the underwriter must use the lesser of the borrower’s temporary leave income (if any) or regular employment income. If the borrower’s temporary leave income is less than their regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. The following are instructions on how to calculate the “supplemental income”.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

Supplemental Income Amount = Available liquid reserves divided by the number of months of the supplemental income.

- **Available Liquid Reserves:** Subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- **Number of Months of Supplemental Income:** The number of months from the first loan payment date to the date the borrower will begin receiving their regular employment income, rounded up to the next whole number.

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

Total Qualifying Income = Supplemental Income + The Temporary Leave Income

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

Note: These requirements apply if the underwriter becomes aware through the employment and income verification process that the borrower is on temporary leave. If the borrower is not currently on temporary leave, the underwriter must not ask if they intend to take a leave in the future.

7A.35 Trust Income

Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years and have been received for no less than six (6) months prior to application date. Evidence of receipt of trust income must be documented. If received other than monthly or quarterly, age of documentation requirements does not apply. A copy of the trust agreement or trustee statement must show the following:

- Total amount of borrower designated trust funds.
- Terms of payment.
- Duration of trust.
- Evidence trust is irrevocable.

If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawals of the assets will not negatively affect the income.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Section 8 Valuation Requirements

8A.1 General Appraisal Requirements

The following conditions must be met on an appraisal:

- Value is on an “as-is” and not subject to future improvements.
- Condition rating is C1 through C4.
- C5 and C6 condition ratings are ineligible.
- Appraisals assigned from another lender are not permitted.
- Appraisal must be completed for subject transaction; prior appraisals are not permitted.

8A.2 Primary Valuation Requirements

- All loans identified as HPML must follow the appraisal requirements identified in the regulation, including the requirement for a full 1004/1073 appraisal, if applicable.
- Loan amount < \$250,000
 - AVM with exterior property inspection that is otherwise compliant with FIRREA requirements (AVM must be dated within 60 days of the Note Date, Property Inspection must be dated within 120 days of the Note Date)
 - AVM score must comply with Fitch AVM approved vendors and PP10 90FSD requirements noted below:
 - Company Approved AVM Providers
 - Exterior-only appraisal (Form 2055), or
 - Full interior/exterior appraisal (Form 1004/1073)
- Loan amount > \$250,000
 - Full interior/exterior appraisal (Form 1004/1073)
- Any HPML Non-QM loan, regardless of loan amount
 - Full interior/exterior appraisal (Form 1004/1073)



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

8A.3 Valuation Waterfall

Validate HPML prior to determining which valuation product and waterfall to select and follow. Full Interior/Exterior (1004/1073) Appraisal.

- Required when:
 - Loan is HPML Non-QM, regardless of loan amount, or
 - Loan amount is \geq \$250,000.

Automated Valuation Model (AVM) with exterior property inspection

Approved AVM Providers: Clear Capital, Homegenius AVM with exterior property inspection

- AVM requires an FSD score \leq to:
 - Clear Capital - \leq 0.13
 - Homegenius - \leq 10
- If AVM FSD score $>$ than minimum FSD scores, the follow appraisal option is
 - Exterior Only appraisal (Form 2055)
 - Full interior/exterior appraisal (Form 1004/1073)



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

8A.4 Properties Located in a Disaster Area

Disaster Policy Overview:

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual Assistance due to a federal government disaster declaration.

The Disaster Policy will be in effect for transactions during an ongoing disaster and transactions with a Note date within ninety (90) days of the end of the disaster incident period. The Disaster Policy is also in effect for loans with a post-closing disaster and prior to the date of purchase by the secondary market investor.

Disaster Policy Effective Date:

The Disaster Policy becomes effective as of the Incident Period Begin Date for the disaster/event. FEMA publishes the Incident Period along with the Declaration Date once the area is declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

Disaster Incident Period Example:

- Begin Date: March 8th
- End Date: March 10th Disaster
- Declaration Date: March 17th

Effective Date for Disaster Procedures: March 8th

Based on the dates noted above in the example, all appraisals/exterior property inspections performed before March 8th would require appropriate re-inspection or review. Appraisals/exterior property inspection performed after March 10th would continue to require written certification by appraiser/inspector that addresses whether the property was free from damage or whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage would need to be addressed.

- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirements, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside the current known disaster boundaries.

Appraisal and Re-inspection Requirements:

To ensure the property value has not been impacted by the disaster, a post-disaster property inspection is required. The inspection may be performed by the original appraiser, another licensed appraiser, or licensed property inspection company.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

- Appraisal performed before the disaster incident begin date: The property re-inspection must identify the following:
 - Property is free from damage and the disaster had no effect on the value or marketability.
 - If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidence by Form 1004D/442, Appraisal Update, and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.
- Standard Appraisal Performed After Incident Period End Date of Disaster – Appraisal must include written certification by appraiser that:
 - Property is free from damage and the disaster had no effect on value or marketability. Completion of repairs is required as evidence by Form 1004D/442, Appraisal Update, and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.

Section 9 Property Project Requirements

9A.1 Condominiums Warrantable

General Requirements:

- To be considered warrantable, a condominium project must comply with all requirements published in the [Fannie Mae Selling Guide](#). A Condominium Eligibility Questionnaire may be required to determine eligibility. Refer to [Fannie Mae's Condominium Project Questionnaire – Full Form 1076](#), or their equivalents, and as applicable. Condominium Project Review Attached condominiums: Limited review allowed for attached units in established condominium projects.
 - Eligible transactions per Fannie Mae guidelines.
- Condo Project Manager (“CPM”) or Project Eligibility Reviews Service (“PERS”) allowed.
- Full review allowed. The warranty must be to Fannie Mae full review guidelines.
- Projects with 2-4 units, project review is waived. Additional Fannie Mae requirements apply when the project review is waived. Refer to section B4.1-02 of the [Fannie Mae Selling Guide](#) for additional information.
- Condominium documents to support condominium eligibility review must be no older than one hundred eighty (180) days from the Note date.

Note: For full warranty, the HOA questionnaire is required unless you provide certification from CPM that the project is FNMA approved.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Detached condominiums:

- Project review is waived. Additional Fannie Mae requirements apply when the project review is waived. Refer to section B-4.1-02 of the [Fannie Mae Selling Guide](#) for additional information.

9A.2 Planned Unit Development (PUD)

PUDs must comply with all requirements published in the [Fannie Mae Selling Guide](#). A PUD Eligibility Letter is not required.

For properties located in a PUD project, the Project Review is waived apart from some basic requirements that must be met.

- The project is not an ineligible under this PEG.
- Priority Common Expense Assessments (HOA fees) must not exceed six (6) months of regular common expense assessments, even if applicable law provides for longer priority period.
- Insurance requirements for PUD projects must be met for title, hazard, liability (if a new project) and flood.
- Appraisal must meet all applicable appraisal requirements established by [Fannie Mae Selling Guide](#).

9A.3 Ineligible Condominium and PUD Projects

- Projects in litigation: Any project for which the HOA is named as a party to pending litigation or, any project for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project is ineligible. Litigation that involves minor matters are not considered ineligible projects, provided that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
 - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment.
 - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or
 - The HOA is named as a plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA dues.



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

- **Condotel:** Any project that is managed and operated as a hotel or motel, even though the units are owned individually. Projects with any of the following characteristics are considered hotel-type projects and are therefore ineligible.
 - Projects that include registration services and offer rental of units daily.
 - Projects with names that include the words “hotel” or “motel”.
 - Projects that restrict the owner’s ability to occupy the unit.
 - Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give management firm control over the occupancy of the units. These formal agreements between the developer, HOA and/or individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations, and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit
 - Projects that include any of the following: central telephone system, room service, units that do not contain full-sized kitchen appliances, daily cleaning service, advertising of rental rates, restrictions on interior decorating, franchise agreements, central key systems, location of the project in a resort area, projects converted from a hotel or motel.
- Projects with non-incident business operations owned or operated by the HOA such as, but not limited to, a restaurant, spa, health club, etc.
- **Investment securities:** projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity.
- **Common interest apartments or community apartment projects:** any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building.
- **Timeshare or segmented ownership projects.**
- **Houseboat projects.**
- **Manufactured housing projects.**
- **Multi-dwelling unit condominiums or cooperatives:** projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all his or her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan).
- **Condominium projects that represent a legal use of the land if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.**



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

- New projects where the seller is offering sale/financing structures more than permitted limits. These excessive structures include, but shall not be limited to, builder/developer contributions, sales concessions, HOA or principal and interest payment abatements, and/or contributions not disclosed on the Closing Disclosure.
- Attached condominium projects where more than fifteen percent (15%) of the total units in a project are thirty (30) days or more past due on their HOA dues/maintenance fees. For example, a one hundred (100) unit project may not have more than fifteen (15) units that are thirty (30) days or more delinquent.
- Newly converted, no-gut rehabilitation condominium conversions are ineligible for financing.
- Condominiums with less than four hundred (400) square feet

Section 10 Title Insurance

Loan amounts less than or equal to \$250,000

- Owner and Encumbrance Property Report – dated within 60 days of the note date.
- Property Tax Information required to be verified.

Loan amounts greater than \$250,000

- Full ALTA Loan Policy – dated within 120 days of the note date.



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Revision History		
Section	Update	Date
	New Product	01/02/2024 V24.1
Underwriting	Removed: No Exceptions Allowed	04/29/2024 V24.2
Eligible First Lien	Previous: <ul style="list-style-type: none"> The first lien must be seasoned for a minimum of 12 months, measured from the Note date of the existing first lien to the Note date of the new closed end second lien. New: <ul style="list-style-type: none"> The first lien must be seasoned a minimum of 6 months, measured from the Note date of the existing first lien to the Note date of the new closed end second lien. 	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

<p>Assets and Reserves</p>	<p>Updated to the following:</p> <p>No asset verification is required unless assets are required for:</p> <ul style="list-style-type: none"> • Cash to Close; or • Payoff of Debt; or • Utilizing assets as an income source (i.e., Capital Gains or Dividends and Interest) <p>When assets are required, the most two (2) months statements are required.</p> <p>Reserves are not required.</p>	<p>04/29/2024 V24.2</p>
<p>Ineligible Property Types</p>	<p>Removed from Summary, refer to the Guide.</p>	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

<p>Payment History</p>	<p>Updated to the following:</p> <ul style="list-style-type: none"> • Inclusive of all liens regardless of position. • Applies to all mortgages on all financed properties. • At least one of the borrowers must have a minimum 12-month payment history with 0x30x12. <p>When the existing lien is not seasoned for 12 months, the prior mortgage or ren history is required to complete the full 12-month payment history.</p> <p>When no borrower on the application has a 12-month housing history, the application is ineligible.</p>	<p>04/29/2024 V24.2</p>
<p>Title Insurance Requirements</p>	<p>Removed from Summary, refer to the Guide.</p>	
<p>Age of Credit Documents</p>	<p>Age of Collateral Documentation updated:</p> <p>Appraisal products (effective date) must be no older than 180 days from the Note Date. After 120 days, an acceptable 1004-D, recertification of value is required.</p>	
<p>Ineligible Property Types</p>	<p>Updated:</p> <p>Properties used as agricultural or zoned for commercial or industrial.</p>	
<p>Disputed Tradelines</p>	<p>Added:</p> <p>Disputed tradelines do not need to be resolved/removed from the credit report.</p>	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Housing Payment	<p>Updated the following section:</p> <ul style="list-style-type: none"> • 0x30x12 • If borrower's mortgage history is less than 12 months, prior rental housing or prior mortgage history required. • Borrowers without a 12-month housing history are ineligible. 	
Credit Events	<p>Updated to the following:</p> <ul style="list-style-type: none"> • Past Due Accounts: Must be brought current. • Collection Accounts or Charge-Offs: Must be paid off at, or prior to closing if account is > \$1,000 or if aggregate of accounts exceeds \$2,500. • Judgements, and Liens (including tax liens): Must be paid off at, or prior to closing. • Bankruptcies (Chapters 7, 11, 13): Must be seasoned for 4 years from application date; borrowers with multiple bankruptcies are ineligible. • Foreclosure or Pre-Foreclosure (120+ days delinquent): Must be seasoned for 4 years from application date. • Deed-in-Lieu of Foreclosure: Must be 	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

	<p>seasoned for 4 years from application date.</p> <ul style="list-style-type: none"> • Short Sale: Must be seasoned for 7 years from application date. • Notice of Default (NOD): Must be seasoned for 7 years from application date. • Forbearance Agreements: Borrower(s) must have a completed/exited the forbearance agreement and made no less than 4 months acceptable payments prior to the application date. • The 12-month housing requirement would include pre-forbearance and post-forbearance payments. The months during forbearance are not considered in meeting the 12-month requirement. <p>Note: There is no waiting period required if the borrower(s) accepted but did not use the forbearance plan.</p>	
Verification of Mortgage (VOM)	Removed from Guide, refer to the Summary.	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

<p>Revolving Debt</p>	<p>Updated bullet</p> <p>Revolving debt may be paid off to qualify before or at closing. Documentation must be provided to evidence the revolving debt has been paid off in the closing package (i.e., evidence of the debt being paid off and 2 months assets. If paid off at closing, the debt payoff must be reflected on the final Closing Disclosure).</p>	<p>04/29/2024 V24.2</p>
<p>Installment Debt</p>	<p>The following bullets have been updated:</p> <ul style="list-style-type: none"> • Installment debts with less than 10 months remaining can be excluded from the DTI. • Real estate owned by the borrower where the borrower is not on the Note may be excluded from the DTI. 	



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

Gap of Employment	<p>Moved 3rd bullet to a Sub bullet:</p> <ul style="list-style-type: none"> Extended gaps of employment, 6 months or greater, require a documented 2-year work history prior to the absence, and <p>The borrower must be employed with their current employer for a minimum of 6 months to include the income for qualifying purposes.</p>	04/29/2024 V24.2
General Requirements	<p>Updated:</p> <p>Borrowers Authorization form signed by all borrowers.</p>	
Verbal Verification of Employment (VVOE) Requirements: Wage Earner	<p>Updated:</p> <p>Verbal Verification of Employment (VVOE) is required for all borrowers with qualifying income.</p>	
Fluctuating Hourly, Variable Hourly and Part-Time Income	<p>Bullet 1 and 3 have been updated:</p> <ul style="list-style-type: none"> Most recent YTD paystubs with year-to-date earnings of no less than 30 days. VVOE for all borrowers with qualifying income. 	
Commission Income	<p>The following bullet has been updated:</p> <p>Most recent YTD paystubs with year-to-date earnings of no less than 30 days.</p>	



Copper Series Product Line

Closed End Second Standalone Home Equity Loan Underwriting

Overtime and Bonus Income	<p>The following bullet has been updated:</p> <ul style="list-style-type: none"> • Most recent YTD paystubs with year-to-date earnings of no less than 30 days. 	04/29/2024 V24.2
Alimony, Child Support, Separate Maintenance	<p>The following bullet has been updated:</p> <ul style="list-style-type: none"> • 2 years' tax transcripts. See specific requirements under the Tax Transcripts section. <ul style="list-style-type: none"> ○ Not required for Child Support 	
Borrowers Employed by a Family Member	<p>The following bullet has been updated:</p> <ul style="list-style-type: none"> • Most recent YTD paystubs within year-to-date earnings of no less than 30 days. 	
Foreign Income	<p>The following bullet has been updated:</p> <ul style="list-style-type: none"> • Most recent YTD paystubs with year-to-date earnings of no less than 30 days. 	
18 K-1 Income/Loss of Schedule E of the 1040s	<p>Added new bullet:</p> <ul style="list-style-type: none"> • K-1 losses do not need to be considered in qualifying when ownership in the business is less than 25% 	



Copper Series Product Line Closed End Second Standalone Home Equity Loan Underwriting

Non-Taxable Income	Added: Note: The Requirements for Tax Returns and Transcripts does not apply to Child Support or Military Rations/Quarters.	04/29/2024 V24.2
Trust Income	Updated: Income from trusts may be used if guaranteed and regular payments will continue for at least 7 years and have been received for no less than six (6) months prior to the application date. Evidence receipt of trust income must be documented. If received other than monthly or quarterly, age of documentation requirements doesn't apply. A copy of the trust agreement or trustee statement must show the following:	
Secondary Valuation Requirements	Removed	
Appraisal	Removed Black Knight from approved AVM providers.	
Geographic Restrictions	Removed NC, NY, PA and VT. "Not Applicable"	07/01/2024 V24.3
Appraisal	Primary Valuation Requirements: For loan amounts \leq \$250,000 Added: <ul style="list-style-type: none"> • Exterior-only appraisal (Form 2055), or • Full interior/exterior appraisal (form 1004/1073) 	07/12/2024 V24.4



Copper Series Product Line
Closed End Second Standalone Home Equity Loan Underwriting

6A.6 Unacceptable Sources of income	Added: <ul style="list-style-type: none"> • Employment related assets as qualifying 	08.22.2024 V24.5
7A.34 Income Documentation Requirements	Added: <ul style="list-style-type: none"> • Temporary Leave Income 	