



First National Bank  
*of America*

# Residential Lending Guide

## Table of Contents

I. FNBA Program Overview.....	7
Program Summary .....	7
Required Documentation at time of submission .....	7
Credit Underwriting .....	8
Rate Lock.....	8
Points and Fees.....	8
II. First National Bank of America Loan Products .....	8
Minimum Loan Amount .....	8
Eligible Loan Types.....	8
Purchases.....	8
Maximum Purchase LTVs .....	8
Refinances.....	9
Continuity of Ownership .....	9
Rate & Term Refinances .....	9
Maximum Rate & Term Refinance LTVs.....	11
Cash-Out Refinance .....	11
Maximum Cash-Out Refinance LTVs .....	12
Maximum Terms by property type for Purchases or Refinances: .....	12
Properties Previously Listed for Sale .....	12
Primary Residence .....	12
Second Homes and Investment Properties.....	12
Non-Arm’s Length Transactions.....	12
Inherited Property / Properties Awarded via Legal Documentation .....	13
Delayed Financing.....	13
Lease with Option to Purchase Principal Dwelling .....	13
Subordinate Financing .....	13
Maximum # of Financed Properties.....	13
Ineligible Loans .....	14
III. First National Bank of America Borrowers .....	14
Occupancy .....	14
Borrower Identification.....	14
Non-Occupant Co-Borrowers.....	15
IV. First National Bank of America Credit Review.....	15
Minimum Credit Standards.....	15
Determining the Borrower’s Score .....	15
Credit Pull .....	16
Housing History.....	16
Inquiries .....	16

Derogatory Credit .....	16
Collections and Debt Balances without Payment Schedules .....	16
Letter of Explanation.....	16
Lawsuits/Pending Litigation .....	17
Tax Liens and Judgments .....	17
Bankruptcy, Short Sale or Deed in Lieu, Pre-Foreclosure and Foreclosure.....	17
Fraud Alerts and Regulatory Messages.....	17
Credit Freeze.....	18
Initial Fraud Alert .....	18
Extended Fraud Alert .....	18
Active Duty Alert.....	18
V. First National Bank of America Income Review .....	19
Compensating factors .....	19
Housing Payment Ratio:.....	20
Total Debt Ratio .....	20
Liabilities .....	20
30 Day Account.....	20
Alimony, Child Support or Maintenance.....	20
Authorized Users on Credit Report.....	21
Personal Debts paid by a Business or Other Entity .....	21
Installment Debt and Leases.....	21
Liabilities Assigned by Divorce Decree or Other Court Order .....	21
Mortgages after Foreclosure .....	21
Mortgages Paid by a 3rd Party.....	21
Revolving Debt.....	22
Student Loans .....	22
Tax Liabilities, Liens and Judgments.....	22
Disputed Debts .....	23
Timeshares.....	23
Unreimbursed Business Expenses (URBE) .....	23
Current Principal Residence Pending Sale.....	23
Borrowers Retaining their Current Residence (Conversion of Primary Residence) .....	23
Income & Employment .....	23
Ability to Repay and Qualified Mortgage Rule .....	23
Overview and History.....	24
Gaps in Employment.....	24

Verification of Employment .....	24
Tax Returns .....	24
Eligible Income Sources and Documentation Requirements .....	24
Annuity Income.....	24
Assets.....	24
Employment Income.....	26
Other Considerations.....	27
Child Support/Alimony.....	27
Employment Contracts .....	28
Foster Care Income.....	28
Notes Receivable .....	28
Non-Taxable Income.....	28
Pension Income .....	28
Rental Income.....	29
Basic Requirements .....	29
Current Rental Income.....	29
Future Leases.....	29
Vacation Rentals .....	30
Purchase of Investment Property with Existing Lease .....	30
Rental Income as Primary Income Source .....	30
Rental Properties Owned by Multiple Individuals, or Businesses not Wholly Owned .....	30
Retirement, Social Security, Disability & VA Income.....	31
Self Employment Income.....	31
Tax Returns .....	31
Profit and Loss Statements .....	31
Bank Statements.....	32
Personal Bank Statements .....	33
Business Bank Statements .....	34
Trust Income.....	36
Foreign Income .....	36
Unacceptable Sources of Income .....	36
VI. First National Bank of America Down Payments and Proof of Assets.....	37
Down payment .....	37
Acceptable Proof of Assets .....	37
Checking and Savings.....	37
Business Assets .....	37
Securities Assets .....	38

Trust Accounts .....	38
Retirement Accounts .....	38
UTMA and UGMA Assets .....	38
Earnest Money Deposit.....	39
Anticipated Sales Proceeds .....	39
Sale of Personal Assets .....	39
Cash .....	39
Gift Funds.....	39
Gifts of Equity .....	40
Sales & Financing Concessions.....	40
Concessions or Interested Party Contributions .....	40
Personal Property (non-realty items).....	40
Unacceptable Assets.....	41
VII. First National Bank of America Eligible Collateral .....	41
Eligible Properties .....	41
Accessory Units.....	41
Multiple Dwellings on One Lot.....	41
Maximum Acreage.....	42
Agricultural Use .....	42
Leasehold Properties .....	42
Ineligible Property Types .....	42
Appraisals.....	42
Appraiser Licensing .....	43
Review .....	43
Value Rebuttals.....	43
Rapid Appreciation.....	43
Refinance Transactions .....	43
Purchases Transactions:.....	43
Property Flips .....	43
VIII. First National Bank of America Documentation Requirements .....	44
Age of Documentation.....	44
Deferred Loan Proceeds (Escrow for Repairs) .....	45
Exception Process .....	45
Excluded Parties Lists.....	45
Flood Insurance .....	45
Deductibles .....	46
NFIP Funding Lapses .....	46
Hazard Insurance .....	46
Condominiums and Home Owners Associations .....	47

Mortgagee Clause .....	47
Prepayment Penalty.....	48
Process to Add or Remove Borrowers .....	48
Title Insurance .....	48
Basic Requirements .....	48
Mobile /Manufactured Homes .....	48
Services for Which the Borrower May Shop .....	48
Non-Individual Ownership .....	48
Trusts .....	48
LLC .....	49
EXHIBIT A .....	50

## I. FNBA Program Overview

### Program Summary

First National Bank *of America* (FNBA) is a niche lender. No other bank in the United States does what we do. We provide mortgage loans to people that the other banks may overlook even though they pay well. For instance, we make loans to people that do not qualify as “conforming borrowers”.

Our chief competitive advantages are the ability to:

- 1) accurately identify market opportunities,
- 2) price our mortgage loans and services appropriately; and
- 3) make (or buy) loans that other banks won't, often by working harder and faster on less conventional loans and with the assistance of customized servicing and computing platforms

While other banks have products and services that are almost entirely locally oriented and of broad appeal to lots of people, FNBA offers fixed rate closed-end mortgage loans with various avenues for credit eligibility which are niche to the market and national in scope.

The intent of this guide is to help you identify specific eligibility criteria, which is applicable to all mortgage loan products offered by FNBA. It will assist you in identifying which documents are required in order to process the loan application with as few delays as possible. Please direct any questions regarding this Selling Guide to your FNBA Account Executive.

### Required Documentation at time of submission

All loan files must include sufficient documentation to render a credit (eligibility) underwriting decision. The following list is an example of a complete application for purposes of underwriting the loan and may not be all-inclusive. Depending on the type of program you are seeking, other documentation may be required.

1. Fannie Mae 3.4 MISMO Data file
2. Copy of government issued photo ID
3. ITIN or SSN verification
4. Income documentation
5. Asset documentation
6. Purchase agreement (if applicable)
7. REO information if borrower owns additional property
  - a. Current Mortgage Statement
  - b. Recent Tax Bill
  - c. HOI
  - d. HOA (if applicable)
  - e. Lease Agreement
8. Anything else that is relevant to the file (such as a letter of explanation on income, assets or credit issues)

Note: FNBA expects Brokers to submit loan applications on the same day the loan application (as defined by TRID) is received by the Broker. Documents submitted to FNBA which evidence an application was received by the Broker prior to the date submitted to FNBA may result in rejection of the loan submission, and/or termination of the Broker agreement.

## Credit Underwriting

FNBA underwriters will **manually** underwrite all loans. Departures from guidelines may come at the discretion of underwriting based on layers of risk. Their decision determines the eligibility of the transaction for origination or purchase by FNBA. The FNBA decision will result in either a conditional approval, a counter offer, incomplete application or a denial.

## Rate Lock

At the initial credit underwriting decision the rate will be locked for 60-calendar days from the initial underwriting decision date. Except for applications involving new construction (discussed below), at the expiration of the initial rate lock the rate is re-locked for recurring consecutive 30-calendar day periods until the loan closes or is no longer active. Each rate lock is based on the rate sheet in effect as of the date of the corresponding credit underwriting decision.

All rate locks are subject to change based upon the verification of information provided by the consumer on the application, including but not limited to: occupancy, appraised value, credit score, property type, loan amount, income documentation, debt to income ratio, or other information.

Applications involving new construction will receive the initial 120-calendar day rate lock. At which point the rate is re-locked for recurring consecutive 60-calendar day periods until closing or the application is no longer active.

Operations staff must provide a rate confirmation disclosure along with the loan estimate that locks the rate initially describing this process. Operations staff must also initiate a rate lock on any loan estimate in which credit underwriting has made a decision following the rate lock procedure discussed above. Rate changes on applications for which a closing disclosure has been sent are still required to lock the rate in the loan origination software, however a revised disclosure is only required if the rate changes by more than .125%.

## Points and Fees

All points and fees are borrower paid. FNBA does not currently offer lender paid compensation. The maximum allowable points and fees charged by a broker is 3%, subject to a minimum or maximum at the broker's option. Amendments to the Broker Agreement (Compensation Plan) may occur no more frequently than every 90 days, or prior to broker's first submission with FNBA on a case by case basis.

Third party processing fees are not allowed.

## II. First National Bank of America Loan Products

### Minimum Loan Amount

The minimum loan amount for FNBA products is \$50,000 nationwide.

### Eligible Loan Types

#### Purchases

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a residential property.

#### Maximum Purchase LTVs

	Primary residence	Second Home	Investment Property	Mobile Home	Vacant Land
--	-------------------	-------------	---------------------	-------------	-------------



Alt A	85%	80%	n/a	n/a	n/a
Near Miss	80%	75%	70%	70%	65%

\*For details on our loan products, please see our website <https://www.fnba.com/wholesale>

## Refinances

A refinance transaction gives the borrower an opportunity to obtain a rate and term refinance or a cash out refinance. For all refinances, the borrower(s) must meet the Continuity of Ownership requirements.

### Continuity of Ownership

To meet Continuity of ownership, one of the following must exist:

- At least one individual, or legal entity (i.e. LLC), currently in title and must remain on title at close (no transfer of ownership at close)
- The borrower has recently inherited, or was legally awarded, the property (divorce, separation, or dissolution of a domestic partnership)
- The borrower(s) are eligible for [Delayed Financing](#)

### Rate & Term Refinances

Rate-Term Refinances consist of the following transaction types and must meet the following requirements:

- Pay-off of the current mortgage and any subordinate liens on subject property to include principal balance plus accrued interest, and any required prepayment penalty
- The borrower only receives incidental cash-back (up to \$2,000)
- Texas rate & term refinance requires:
  - Previous transaction being refinanced was a purchase money mortgage, or land contract, and
  - Borrower receives \$0 cash-back

#### Owner occupied properties:

- the borrower has paid the mortgage for the last 6 months prior to application, and
- borrower must be in title to the subject property at the time of loan application

#### Investment Properties and Second Homes:

- borrower must be in title to the subject property for 6 months prior to application, and
- Borrower must be obligated on underlying liability

### *Refinances for Seller-Financed Real Estate Loans (Land Contracts, Installment Land Contract or Contract for Deed)*

- Contract must be executed prior to the date of the loan application,
- Contract must be executed by both parties and a copy of the of contract and notice of payoff(s) are required;
- Contract must be notarized for both parties or recorded
  - Borrower must provide evidence that the sale took place on the date of the contract (i.e. evidence of down payment, settlement statement). Subject to underwriter review.
- Primary Residence, Second Home and Investment Properties are eligible collateral property types
- LTV based on lesser of appraised value or original purchase price or purchase price plus improvements
- Incidental cash back not to exceed \$2,000.

- Six (6) full months of housing payment history must be verified with 6 months cancelled checks or equivalent financial documentation (bank statements, wire transfers, etc.)
  - If contract was executed less than 6 months prior to the date of the loan application, the borrower's previous housing payment history (covering 6 months) must also be verified in addition to all payments made on the loan

Subject to [Rapid Appreciation](#) requirements.

**Maximum Rate & Term Refinance LTVs**

	Primary residence	Second Home	Investment Property	Mobile Home	Vacant Land
Alt A	85%	80%	n/a	n/a	n/a
Near Miss	80%	75%	70%	70%	n/a

\*For details on our loan products, please see our website <https://www.fnba.com/wholesale>

**Cash-Out Refinance**

- Unlimited cash-out, in which the consumer may receive an amount of cash equal to or less than the loan amount
- Limited Cash-out, in which the consumer may receive a maximum as specified by credit u/w

**Eligibility Requirements**

Cash-out refinance transactions must meet the following requirements:

- The transaction must pay off all existing mortgages on the subject property by obtaining a new first mortgage secured by the same property, or be a new mortgage on a property that does not have a mortgage lien against it.
- Properties previously listed for sale must have been off the market at least 90 days before the application date of the new mortgage loan.
- The property must have been purchased or acquired by the borrower at least six months prior to the disbursement date of the new mortgage loan except for the following:
  - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
  - Delayed financing requirements have been met. See [Delayed Financing](#) Exception below.
  - If a limited liability corporation (LLC) that is majority-owned or controlled by the borrower owns the property prior to closing, then the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement.
  - If the property was owned prior to closing by an *inter vivos* revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

**Cash-Out Refinance for Seller-Financed Real Estate Loans (Land Contracts, Installment Land Contract or Contract for Deed)**

- Land contract was executed more than 12 months before the date of the loan application
- Contract must be executed by both parties and a copy of the of contract and notice of payoff(s) are required;
- Contract must be notarized for both parties or recorded
  - Borrower must provide evidence that the sale took place on the date of the contract (i.e. evidence of down payment, settlement statement). Subject to underwriter review.
- Primary Residence, Second Home and Investment Properties are eligible collateral property types
- Six (6) full months of housing payment history must be verified with 6 months cancelled checks or equivalent financial documentation (bank statements, wire transfers, etc.)
- Subject to [rapid appreciation](#) limits

- Cash out refinance requested after recent repairs or renovations must include a letter of explanation with submission

### Maximum Cash-Out Refinance LTVs

	Primary residence	Second Home	Investment Property	Mobile Home	Vacant Land
Alt A	75%	75%	n/a	n/a	n/a
Near Miss	75%	75%	70%	70%	n/a

\*For details on our loan products, please see our website <https://www.fnba.com/wholesale>

### Acceptable Uses for cash-out refinance transactions

Loan proceeds must be first used to pay off any outstanding liens on the property, as well as payment of closing costs, point, and prepaid items, unless prohibited by regulation. A cash-out letter of explanation will be required to define the use of funds by the borrower above these defined costs.

### Maximum Terms by property type for Purchases or Refinances:

The following are the maximum loan terms available by property type:

- Site built Single-family owner-occupied residence 360 months
- Site built Condominium owner-occupied residence 360 months
- Site built 2 unit owner-occupied residence 360 months
- Site built 3 or 4 unit owner-occupied properties 300 months
- Non-owner occupied residential property 300 months
- Manufactured home – Double wide home 240 months
- Manufactured home – Single wide home 180 months
- Vacant land 240 months

Term and property type exceptions may be granted, and will be considered on a case-by-case basis. The Credit Underwriter must specifically approve the exception and it must be documented in the credit file. Terms greater than 30 years are not offered.

### Properties Previously Listed for Sale

If the subject property has been listed prior to application, the following apply:

#### Primary Residence

- Property must have been off the market for a minimum of ninety (90) calendar days prior to the application date
- The borrower must confirm in writing that they intend to occupy the subject as a primary residence and the reason for listing the property

#### Second Homes and Investment Properties

- Property must have been off the market for a minimum of 6 months prior to the application date
- The borrower must confirm in writing the reason for listing property

### Non-Arm's Length Transactions

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

of existing properties unless specifically forbidden for the particular scenario. A letter of explanation defining the relationship must be included in loan submission.

### Inherited Property / Properties Awarded via Legal Documentation

Inherited properties are permitted, provided the borrower has inherited, or was legally awarded the property, such as through a divorce, separation, or dissolution of a domestic partnership. Appropriate, supportive legal documentation of the inheritance, or the legal award of the property, must be provided.

### Delayed Financing

Borrowers who purchased the subject property with cash within the past six months (measured from the date on which the property was purchased, to the disbursement date of the new mortgage loan) are eligible for financing if all of the following requirements are met.

- Loan parameter eligibility, including LTV, rate, and term, will be based on the rate and term matrix
- The original purchase transaction was an arms-length transaction
- LTV based on lesser of original acquisition price and current appraised value. Renovation costs considered on a case-by-case basis.
- Property must have been purchased using the borrower(s) own funds; title must evidence no current liens
- Entire copy of Settlement Statement/Closing Disclosure from the original purchase and documentation to show the down payment and closing costs used for the purchase
- Program not available in Texas
- Vacant land considered on a case-by-case basis.

If borrower does not meet these guidelines, the loan must be underwritten as a cash out refinance.

### Lease with Option to Purchase Principal Dwelling

A lease with option is renting or leasing property with the option to purchase at a later time. Maximum LTV is capped at 80%. Borrowers with a valid, executed lease with option to purchase **will be priced, and treated as a purchase** transaction. The lesser of the appraised value or the purchase price established with the original lease with option, will be used for qualification. Rent credit should be applied as a gift of equity.

Note: If there is no purchase option written, we will require a new contract to outline terms of transaction.

### Subordinate Financing

FNBA only originates first-lien mortgages. Subordinate liens must be closed and clearly subordinate to the FNBA first lien. Maximum CLTV/HCLTV cannot exceed the maximum LTV permitted by the program matrix.

### Maximum # of Financed Properties

If the proposed loan is secured by the borrower's principal residence or second home, there are no limitations on the number of other financed properties with outstanding balances.

If the proposed loan is secured by an investment property, the following policy applies:

- Borrower(s) may own no more than Eight (8) financed properties including the subject property.
- The borrower may own additional real estate if it is owned free and clear

## Ineligible Loans

FNBA will not originate the following:

- Cross-collateralization or Blanket loans, covering multiple properties
- Bridge loans
- Construction loans
- ARMs
- HELOCs
- Balloon loans
- Interest only loans
- Mobile to land loans
- Greater than 30 year terms
- Loans in violation of Florida Statute 692.203 or 692.204 without documentation of acceptable citizenship status for residential transactions.
- Loans secured by a non-primary residence in Oklahoma if the borrower is not a resident of Oklahoma, or a US Citizen.

## III. First National Bank of America Borrowers

FNBA will originate loans to borrowers who are natural persons and have reached the age at which the mortgage note is enforceable in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

### Occupancy

Eligible occupancy types include:

- Primary residences for 1-4 unit properties
- Second Homes – 1 Unit only
  - Must be occupied by the borrower for some portion of the year
  - Only one second home allowed
  - Must be located in a recognized vacation area typical for second home properties (e.g., beach, ski, golf, resort, recreational in nature)
  - No rental (Airbnb) or time share arrangement income can be used to qualify
- Investment or Non-Owner Occupied – 1-4 Units
  - Gift funds not allowed

### Borrower Identification

FNBA requires documentation of the borrower's identity at time of loan submission with final verification of identification to be completed prior to loan closing. The following are required on all loans:

1. Unexpired government photo ID (i.e. driver's license, passport etc.), and
2. Supplemental documentation such as ITIN card or letter from IRS, birth certificate, tax returns, paystub, tax bill, social security card, utility bill, W-2 etc. may be requested

For consumers with an ITIN that do not have U.S. citizenship but do reside and work within the United States:

- ITIN is required to be assigned to the consumer prior to application

- Verification of the unexpired ITIN is provided by a letter from the IRS confirming the ITIN is assigned to the consumer prior to consummation
  - IRS form W7 is not acceptable evidence if the ITIN letter is not provided, or if the ITIN letter submitted is not legible.
  - Expired ITIN's may submit a filed tax return using an ITIN within the last 3 calendar years, or a signed W7 to evidence current status.
- Unexpired passport, visa, or other government issued identification with photo or similar safeguard
- If closing with a power of attorney in the U.S., a notarized, or equivalent copy of the power of attorney form must be approved by the title company and presented at closing

### Non-Occupant Co-Borrowers

Non-occupant co-borrowers are credit applicants on a principal residence transaction who do not intend to occupy the subject property as a principal residence. Non-occupant co-borrowers must meet the following requirements:

- Non-occupant borrower must sign the mortgage and note
- Non-occupant borrower must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker
- Occupying borrower must contribute to qualifying income
- Occupying borrower must have a minimum 660 credit score
- LTV reduction of 5% from program maximum. LTV not to exceed 75%

## IV. First National Bank of America Credit Review

A Trans Union single file credit report is required for every Borrower who executes the Note. The credit report should generally include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the Borrower has resided in the past two years.

### Minimum Credit Standards

FNBA's minimum credit score for all programs is 600. Different programs have different credit standards. Please follow minimum credit standards as reflected on specific product rate sheets.

If the Trans Union credit report reflects a true "no score" (i.e. no credit activity) and does not show a score then utilize the "no score" pricing reflected on our Near Miss rate sheet. Any "no score" borrower will be required (in accordance with this guide) to provide either 6 months of third party verified housing history, or third party verification that at least 50% of the assets for down payment are from the borrower's own resources.

### Determining the Borrower's Score

All borrowers must have the minimum credit score required to meet eligibility as per the eligibility matrix or other requirements outlined in this product profile. To determine the score for each Borrower on the loan:

- For individual borrowers, use the Trans Union score, if available. If no score is reporting, the loan will be priced using the "no score" line on the rate sheet
- For multiple borrowers, use the average of Trans Union scores, rounded up, if available. Any borrower with no score reporting will be priced using a 620 score.

## Credit Pull

The FNBA credit report is valid for 90 days from the credit report date. Once an application is submitted/taken, another credit report will not be ordered during that period unless due to clerical error or management approval.

## Housing History

A housing history for the most recent 6 months is **generally** required, with all mortgages and rental histories showing on the credit report or documented by a written verification by a valid third party entity or a property management company. Borrowers who own their home free and clear and cannot provide 6 months of mortgage history, can qualify by providing evidence of payment of homeowners' insurance and taxes for their home. Borrowers with no housing history (i.e. living rent-free) may be considered on a case-by-case basis.

Borrowers who do not own their homes free and clear, have owned their current home for less than 6 months AND have no prior homeownership can use a combination of previous rental history and mortgage history to meet the housing history requirements.

Housing histories through private parties must be verified with cancelled checks, referencing the company or individual who completes the verification. Payment must be made within month due, i.e. lump sum payments (12 months made with one or several checks) will not satisfy proof of responsible housing payments.

## Inquiries

Non-mortgage credit inquiries within 60 calendar days of the credit order require confirmation the borrower has no new lines of credit. Confirmation of any new debt will require documentation as to the amount owed, and monthly payments, and the borrower's debt-to-income ratio will reflect the new debt.

## Derogatory Credit

### Collections and Debt Balances without Payment Schedules

Collections or Charge-offs against an applicant, and debt balances without payment schedules must have 3.5% of the total debt included in DTI calculation if:

- The credit report indicates a last active date within the past 24 months, or referred to collection agency and reported as opened in the past 24 months, and
- Total non-medical collections greater than \$600 per loan aggregate to \$4,000 and greater, and are not being paid at closing

Excluded:

- Medical collections,
- Non-Collection Debts with utility companies.
- Liabilities that do not appear on the credit report may require proof by financial statement, note or mortgage to verify the amount owed.

### Letter of Explanation

Letters of explanation are typically required for:

- Previous Bankruptcy
- Previous Foreclosure
- Delinquencies in last 6 months



A satisfactory signed written explanation provided from Borrower(s) explaining the reason(s) for the credit event or other isolated lapse in their credit performance is required. The timing of the event(s) must be consistent with other application information. Additional documentation supporting the Borrower's explanation(s) may be required.

A Borrower with a significant derogatory credit event or other isolated lapse in their credit performance should evidence that he/she has re-established his/her credit history. Payment histories on accounts should reflect satisfactory payments following the credit event. Late payments on accounts following a credit event should be evaluated to determine a borrower's willingness to repay their obligations. Multiple delinquencies on accounts including collections, charge-offs, judgments or tax liens may require additional explanations, documentation or result in a borrower's ineligibility for FNBA's loan programs.

### **Lawsuits/Pending Litigation**

If the application, title, or credit documents reveal that the Borrower, or Homeowners Association (HOA) is presently involved in a lawsuit or pending litigation, the following is required:

- A copy of the complaint and answer
- Title must assure FNBA's first lien position

Review of the lawsuit or pending litigation may result in a borrower's ineligibility for FNBA loan programs.

### **Tax Liens and Judgments**

Tax Liens and Judgments (not affecting title), that have not been satisfied or discharged must be included in DTI and monthly liability will be calculated using either:

1. Formal payment arrangement
2. 3.5% of balance

For loans with 85% LTV, tax liens and judgments must be paid prior to or at closing. If judgment(s) are paid at closing, they must be reflected on the final closing disclosure and disbursed by the closing agent.

### **Bankruptcy, Short Sale or Deed in Lieu, Pre-Foreclosure and Foreclosure**

At the time of loan disbursement, the following waiting periods apply for significant derogatory events:

#### **Alt A Program**

- 4 Years from the discharge or dismissal date

#### **Near Miss Program**

- No seasoning requirements
- If borrower is in a repayment plan under Chapter 13, a letter authorizing the transaction must be provided from the bankruptcy trustee
- Borrowers currently in foreclosure will be considered on a case-by-case basis

### **Fraud Alerts and Regulatory Messages**

Whenever a fraud alert is reflected on a credit report, you have an obligation to verify that the applicant is indeed who they say they are and you must do your due diligence to obtain their permission to proceed with the credit application.

Types of fraud alerts include:

### Credit Freeze

A credit freeze prohibits potential new creditors from accessing your credit history. In these situations, the only way a creditor can access the consumer's information is if the consumer temporarily lifts the "freeze" to allow the access. Placing a credit freeze does not affect a person's credit score – nor does it keep them from obtaining their free annual credit report, or from buying their credit report or score.

- For a Credit Freeze, the broker must contact the consumer and have them contact the credit reporting company to remove the freeze. A new credit report can be pulled by FNBA when lifted.

### Initial Fraud Alert

When a consumer suspects he or she has been or may be a victim of identity theft through a phishing scam or a missing wallet, he or she may request that an initial fraud alert be placed on his or her credit report. The initial alert remains on the consumer's report for 90 days and requires that potential creditors use "reasonable policies and procedures" to verify the consumer's identity before granting credit in the consumer's name.

- For initial fraud alerts, FNBA must ensure a telephone number is listed on the alert on the credit report and that there is an accurate and current phone number listed on the 1003. If there is no phone number listed on the alert, FNBA must contact the consumer and have them contact the credit reporting company to add their phone number. A new credit report can be pulled with the update.
- If the alert includes a phone number, FNBA must contact the borrower at the phone number listed on the credit report to verify their identity at the phone number. A log of this conversation must be submitted with loan file.

Note: Only the number issued on the credit report may be used to contact the borrower.

### Extended Fraud Alert

A consumer may request an extended Fraud Alert be placed on his or her credit when identity theft has been confirmed and supported by an actual police report filing. The extended alert remains for seven years and automatically adds the name to the DoNotCall list. This removes the name from marketing lists for pre-screened credit offers for five years. Potential creditors are required to contact the consumer or meet with the consumer in person to verify the identity of the applicant prior to issuing credit in the consumer's name.

- For an extended fraud alert, FNBA will make contact with the applicant utilizing the telephone number listed on the alert on the credit report. If there is no phone number listed on the alert or contact cannot be made utilizing the number in the alert, FNBA must contact the consumer and have them contact the credit reporting company to add or correct their phone number. A new credit report can be pulled with the update.
- FNBA must contact the borrower at the phone number listed on the credit report to verify their identity and verify the submission of the application at the phone number listed. A log of this conversation must be submitted with loan file.

Note: The number issued on the credit report must be used to contact the borrower.

### Active Duty Alert

A member of the military being deployed to active duty may request that an "active duty alert" be placed on his/her credit report by contacting one of the nationwide consumer reporting companies. Only one agency needs to be contacted as they are required to report the request to the other two agencies. The alert is placed on the consumer's report for one year but can be removed sooner when requested by the consumer. If deployment is to last longer than one year, the consumer may request another alert be added upon expiration

of the initial alert. Upon the alert being added to the consumer’s report, he/she is automatically removed from marketing lists which will cease prescreened offers for credit or insurance.

When a broker sees an active duty alert on a credit report, FNBA and/or the broker must verify the identity of the applicant before issuing credit in the applicant’s name. Since contacting the deployed individual may not be possible, the law allows the active military person to assign a personal representative to place or remove the active duty alert.

- FNBA and/or the broker must contact the borrower at the phone number listed on the credit report to verify their identity at the phone number. A log of this conversation must be submitted with loan file.

## V. First National Bank of America Income Review

- The maximum DTI is determined by the Credit Underwriter (no housing ratios required)
- DTI’s greater than 43% and up to 55% may be considered with compensating factors
  - DTI is capped at 43% for borrowers with income at or below \$2000/mo.
  - DTI is capped at 43% for borrower with income over \$62,500/mo.
- See individual product guidelines for details and additional restrictions

Monthly Income	No Compensating Factor	One Compensating Factor	Two Compensating Factors
<\$2,000	43%	43%	43%
=>\$2,000 and <\$62,499	43%	50%	55%
>=\$62,500	43%	43%	43%

### Compensating factors

Borrowers may qualify for a maximum of two compensating factors. Each factor the borrower qualifies for will count towards the total, using any combination of factors.

Each of the below provide one compensating factor:

1. Borrower’s liquid assets after closing are 3x the monthly housing payment (principal, interest, tax, and insurance) or greater.
  - a. Privately held stock may not be used to qualify
  - b. Proceeds from a cash out refinance of subject property may not be used to qualify
2. The new housing payment will increase by no more than 10% from the borrower’s existing housing payment and there have been no delinquencies in the borrower’s housing payment over the last 6 months. A minimum of 6 housing payments is required.
3. The largest of the borrower’s qualifying income has come from the same source for 3-years or more.
4. Credit score of 660 or greater.
  - a. Multiple borrowers must have their average credit score meet these criteria.
  - b. Borrower’s without credit will be priced at a 620 score for qualification purposes.

Each of the below provide two compensating factors:

5. The borrower’s liquid, non-retirement assets after closing are 6x the monthly housing payment (principal, interest, tax, and insurance) or greater.

- a. Privately held stock may not be used to qualify.
- b. Proceeds from a cash out refinance of subject property may not be used to qualify
6. The total of the borrower's non-physical assets (savings, checking, 401k, IRA's, etc...) after closing are 12x the monthly housing payment (principal, interest, tax, and insurance) or greater.
  - a. May be used with any income program, including asset depletion.
  - b. Privately held stock may not be used to qualify.
  - c. Proceeds from a cash out refinance of subject property may not be used to qualify

Note: If gift funds are used for down payment, borrower's assets cannot be used as compensating factors.

### Housing Payment Ratio:

The monthly housing expense is not considered in the FNBA analysis outside of the [compensating factor](#) section.

Borrowers who own real property free and clear must be qualified using all property-related taxes and provide evidence of insurance, and association dues payment to document the total monthly obligation that is required to be included in the DTI.

### Total Debt Ratio

The qualifying debt-to-income ratio (DTI) compares the borrower's total monthly obligations with his/her qualified monthly gross earnings based on the rate of the loan for which the borrower is applying. The DTI will be calculated based upon the sum of the following obligations, divided by the borrower's stable monthly income:

- Monthly housing expense as per qualifying rate
- Outstanding monthly obligations including but not limited to:
  - Installment debt
  - Revolving debt payments
  - Alimony, child support or maintenance payments
  - Losses associated with other real-estate owned
  - Other obligations where a monthly payment is legally required

### Liabilities

Monthly payments on all existing debts are included in the borrower's total liabilities or obligations as detailed below.

### 30 Day Account

A 30-day charge account is defined as an account where the borrower must pay off the total outstanding balance each month. There are no alternative monthly payment options. FNBA will use current payment, if available as reported on the credit report or current statement. Otherwise, 3.5% of outstanding balance will be used for qualifying purposes.

### Alimony, Child Support or Maintenance

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement the payments must be considered as part of the borrower's recurring monthly debt obligations. Voluntary payments do not need to be taken into consideration.

- If there are fewer than ten documented payments remaining and you wish to have the liability excluded from ratios, provide:
  - a copy of current divorce decree, maintenance agreement or other legal document evidencing end date of payment

### **Authorized Users on Credit Report**

Borrowers listed as an Authorized User only on a credit report may have those related liabilities omitted, as they are not obligated to repay the debt.

### **Personal Debts paid by a Business or Other Entity**

For applicants not qualifying using the bank statement income program, personal debts paid by a Business or Other Entity may have the debt removed from their personal debt calculation if there has been no delinquency in payments, AND either:

1. Evidence of 3 months payments are provided from a bank account of which the borrower has no ownership (This does not apply to leases), OR
2. For self-employed borrowers with business income: Evidence of 3 months payment, or a term less than 3 months at underwriter discretion, are provided that the debt was paid out of a business account and considered in the business cash flow analysis.

### **Installment Debt and Leases**

An applicant's payments on installment debt are to be included in DTI calculations. However, if there are 10 or fewer payments left until the debt is paid then the payment amount can be excluded from DTI calculations, including debts paid down using cash from a refinance transaction. This exception does not apply to automobile lease payments, as described below.

All automobile lease payments, regardless of the number of payments left, must be included in DTI calculations (on the basis that autos are essential, and at the end of the lease period another auto will need to be leased by the applicant).

Installment payments on the borrower's debt to his/her own 401(k) are excludable from DTI calculations.

### **Liabilities Assigned by Divorce Decree or Other Court Order**

1. Liabilities assigned by divorce decree or other court order to another person may be omitted from liabilities.
2. If the divorce decree or other court order does not specify the particular account in question, 3rd party documentation will be required to verify liability assigned matches the debt to be omitted on the credit report.

### **Mortgages after Foreclosure**

Mortgages on properties which no longer obligate the borrower due to final dispensation of foreclosure, such as a sheriff's sale, may have the obligation omitted from the borrower's liabilities. Proof the property mortgaged by the obligation was sold in foreclosure is required.

### **Mortgages Paid by a 3<sup>rd</sup> Party**

Applicants may have a mortgage obligation omitted from their debt calculation if the following requirements are met:

1. Evidence the mortgage being omitted has been paid by a 3<sup>rd</sup> party for 3 months prior to application, and
2. Proof the 3<sup>rd</sup> party is obligated to repay the mortgage being omitted.
3. 3<sup>rd</sup> party cannot be a spouse of the borrower

### Revolving Debt

Revolving debt is open ended debt of which the principal balance on an account may vary from month to month (e.g., department store credit cards). The minimum required payment as stated on the Credit Report or current statement should be used in calculating the DTI unless as noted below.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment amount, the payment must be calculated 3.5% of the outstanding balance.

Revolving debt may be paid off to qualify and the monthly payment excluded from the DTI. Documentation must be provided to confirm the debt has been paid off. Underwriter discretion may require debt to be closed after payoff.

Debts may be paid off at closing and reflected on the final closing disclosure.

- Source of funds for payoff of a revolving debt must meet all applicable asset requirements as outlined in this guide

### Student Loans

Student loans, whether deferred or not, must be included in the debt ratio for qualifying purposes. The payment reported in the credit report will be used for qualifying the borrower. In the absence of a monthly payment verification from the lender, 1% of the loan balance must be used to qualify the borrower.

Payment plans based on income may have student loan payments omitted if the following third party documentation is provided showing both:

- Borrower is enrolled in a repayment plan based on income, AND
- Based on borrower's income, the current payment amount is \$0.00

### Tax Liabilities, Liens and Judgments

Unless the borrower provides proof of pay off, all tax liabilities will be included in DTI using a monthly payment of either:

- Dividing the liability by 72 months, or
- Monthly amount approved by the IRS in a formal payment plan

Liens and Judgments that have not been satisfied or discharged must be included in DTI and monthly liability will be calculated using either:

- Formal payment arrangement
- 3.5% of balance

## Disputed Debts

Debts disputed on the credit report must be included in the DTI calculation unless the borrower provides proof of satisfaction of the debt. Disputed debts without a monthly payment on the credit report must include the balance remaining into DTI following the tax, liabilities, and judgments section above.

## Timeshares

Timeshares are to be treated as installment loans rather than mortgage debt.

## Unreimbursed Business Expenses (URBE)

Borrowers receiving a business allowance may have the liability it relates to offset by the amount of the allowance. Any net unreimbursed business expense is a liability, and any surplus is income when calculating the qualifying debt to income ratio of the borrower.

## Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the FNBA transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. The property must be included in the list of Real Estate Owned.

## Borrowers Retaining their Current Residence (Conversion of Primary Residence)

When a borrower is purchasing a primary residence and retaining his/her current residence, the Credit Underwriter will review the application and supporting documentation to determine if any red flags regarding occupancy are present. FNBA may reprice as a non-owner occupied property (LTV & Rate).

For example, a borrower applying for purchase of more than one primary residence within a 12 month period or within same zip code is considered a red flag. FNBA may reprice this example as investment property (LTV & Rate).

- Borrower to provide LOX in this situation

## Income & Employment

### Ability to Repay and Qualified Mortgage Rule

For any consumer credit transaction secured by a dwelling, First National Bank of America must reasonably believe that the borrower has the ability to repay the transaction according to the loan terms. At minimum, FNBA will adhere to 12 CFR §1026.43 and will comply with the following eight ATR underwriting factors in making a reasonable, good-faith evaluation:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan
2. Current employment status (if relying on employment income when assessing the consumer's ability to repay)
3. Monthly mortgage payment for this loan. Calculate this using the introductory or fully indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal.
4. Monthly payment on any simultaneous loans secured by the same property
5. Monthly payments for property taxes and insurance that are required the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent
6. Debts, alimony, and child-support obligations

7. Monthly debt-to-income ratio or residual income, that is calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
8. Credit history

FNBA Credit Underwriters are not precluded from considering additional factors. Helpful assistance is available by using CFPB issuances, Appendix Q to Part 1026 – Standards for Determining Monthly Debt and Income.

### Overview and History

Employment must be reviewed for stability and continuity, with at least a twenty four (24) month employment history. Other circumstances may also be acceptable as outlined in this section. In all instances, the source of the borrower's income must align with their overall employment history and profile. As such, a review of employment greater than the most recent twelve months, may be required by the FNBA Processing Underwriter.

### Gaps in Employment

The Borrower must explain, in writing, any gaps in employment. For Borrowers with gaps in employment of six months or more (an extended absence) in the most recent 12 month period, a VOE is recommended in order to establish continuity and stability of new employment.

### Verification of Employment

VOEs may be used as a substitution for paystubs and/or W-2s or to document irregular forms of income such as bonus, overtime and commission wages. FNBA will perform a verbal verification of employment for all Broker provided VOEs at the time of loan submission. FNBA will independently verify the contact information.

Borrowers employed by a family member must provide paystubs and/or W2s. VOE's are not allowed in this circumstance.

### Tax Returns

Tax returns, when required, must be signed and dated by the Borrower(s) and/or Tax Preparer and contain all schedules and attachments; tax returns should cover the most recent year period. Borrowers filing an extension must provide:

- Proof of extension filed with the IRS, and
- Most recent filed tax return

## Eligible Income Sources and Documentation Requirements

### Annuity Income

- Required Documentation
  - Proof of receipt
  - Verification letter or distribution schedule will be required to show monthly amount
  - Proof of 3 or more years continuance

### Assets

Assets may be used to supplement other sources of income, or to qualify the borrower without utilizing another income source.

- Required Documentation
  - Asset account statement for each account being used to qualify the borrower, valid if dated within 90 days of close.
  - The records may be computer generated forms including online account or portfolio records downloaded from the Internet. Documents that are faxed to the lender or



downloaded from the internet must clearly identify the name of the depository or investment institution and the source of the information – for example, by including that information in the internet or fax banner at the top of the document

#### *Asset Depletion (Assets used to supplement other sources of income)*

- Basic Requirements:
  - Disbursement from account not required
  - Eligible assets must be generally liquid assets, such as: cash, CD's, publicly traded stocks and bonds, or surrender value of insurance policies, and including cryptocurrencies.
    - Gift funds are not assets which are eligible for use in the analysis
    - Receipt of gift funds for down payment does not prohibit a borrower from using this section to qualify
  - DTI will be calculated if assets are used in this manner
  - Total qualifying monthly income will be calculated by adding the asset, depleted over 84 months, and added to other income calculation amounts.
  - Borrower must have a source of income other than assets in order to use assets as a supplement in this section
  - Borrowers younger than 59 ½ years at time of closing will have total retirement assets used decreased by 10%.
  - Due to market volatility, reduce all cryptocurrency by 10% in addition to other applicable reductions.
- Required Documentation:
  - Asset account statement for each account being used to qualify the borrower, valid if dated within 90 days of close.
- Other requirements
  - Any asset used towards repayment of the loan must be seasoned 60 days prior to close, and large deposits must be sourced.
    - Valid securities issued in certificate form that are held, or registered, in the customer's name are not required to be seasoned in an account or liquidated to qualify for use as a Ready Liquid Asset.
    - Treasury Bonds held in physical form must be verified by issue date, serial number, and denomination using the US Treasury website within 30 days to ensure they are valid and not redeemed.
  - Cash in a business account may be used if the following is provided:
    - Business's bank statements
    - Proof the borrower wholly owns the business by means of K-1, verification of ownership from a CPA, or other 3rd party documentation.
      - Exceptions to the borrower wholly owning the business may be made on a case by case basis.
    - The account used must not be encumbered for another purpose, such as an account used to hold rental security deposits, an attorney's IOLTA/IOTA account, or be subject to a perfected security interest.
  -

#### *Ready Asset (Assets used as the sole source of income)*

- Basic Requirements:
  - Borrowers are qualified using assets, rather than a traditional source of income
  - Eligible assets must be generally liquid assets, such as: cash, CD's, exchange-listed stocks, bonds, or surrender value of insurance policies, and including cryptocurrencies.
  - Eligible assets can be held in either qualified, or non-qualified accounts, such as: checking,

- savings, IRA's, Roth accounts, and 401(k)'s
- The sum of applicant's financial assets must exceed the principal balance of all debt obligations as determined by bank policy, including down payment and all closing costs of the extension of credit, as well as one year of mortgage related obligations on all property the applicant owns.
  - Borrowers younger than 59 ½ years at the time of closing will have the principal balance of all eligible assets held in a qualified retirement account used to qualify the borrower reduced by 10%
  - Eligible assets held in a tax deferred qualified retirement account, used to qualify the borrower will have the principal balance reduced by 25%.
  - **Due to market volatility, reduce all cryptocurrency by 10% in addition to other applicable reductions.**
  - **Mortgage related obligations include, but not limited to: property taxes, hazard insurance, and home owner's association fees.**
- Required Documentation:
  - Asset account statement for each account being used to qualify the borrower, valid if dated within 90 days of close.
  - Proof the assets belong to the borrower
- Other requirements
  - Any asset used towards repayment of the loan must be seasoned 60 days prior to close, and large deposits must be sourced.
    - Valid securities issued in certificate form that are held, or registered, in the customer's name are not required to be seasoned in an account or liquidated to qualify for use as a Ready Liquid Asset.
    - Treasury Bonds held in physical form must be verified by issue date, serial number, and denomination using the US Treasury website within 30 days to ensure they are valid and not redeemed.
  - A DTI will not be calculated if the borrower is qualifying on assets alone, and not using assets as a supplement to other income sources
  - Cash in a business account may be used if the following is provided:
    - Business's bank statements
    - Proof the borrower wholly owns the business by means of K-1, verification of ownership from a CPA, or other 3rd party documentation.
      - Exceptions to the borrower wholly owning the business may be made on a case by case basis.
    - The account used must not be encumbered for another purpose, such as an account used to hold rental security deposits, an attorney's IOLTA/IOTA account, or be subject to a perfected security interest.

## Employment Income

### Required Documentation:

- Previous year's W-2
  - The greater of Box 1 or Box 5 will be used as the annual wage.
  - For borrowers filing tax returns as an individual, we may use Line #7 of IRS form 1040 in lieu of W-2s if income history is consistent with current income. W-2 may still be requested if necessary to separate income from multiple employers.
  - Verification of Employment may be used in lieu of W2

- Verification of employment not ordered directly by FNBA must be verified verbally, and must note in the file:
      - Contact phone number,
      - Name of contact,
      - Date of verification, and
      - Information verified
    - Verbal verifications are valid if dated within 30 days of close.
  - The most recent paystub at the time of application
    - Paystub(s) are/is valid if dated within 90 days of close,
    - Paystub(s) must cover at least a 14 calendar day time frame,
    - Paystub(s) must include year to date income, and withholdings, information, and
    - Additional paystubs may be requested in order to confirm pay period, bonus, commissions, consistency, or other relevant information
  - Verification of Employment may be used in lieu of paystub
    - Verification of employment not ordered directly by FNBA must be verified verbally, and must note in the file:
      - Contact phone number,
      - Name of contact,
      - Date of verification, and
      - Information verified
      - Verbal verifications are valid if dated within 30 days of close.

### Other Considerations

- Overtime, Bonus and Other Irregular pay may require a Verification of Employment (VoE) in order to be reasonably relied upon if the overtime, bonus, or other irregular pay has varied.
- Borrowers employed < 2 years with current employer
  - VOE recommended
  - A Signed Offer of Employment, or Salary letter, may be used for W-2 borrowers to provide additional documentation of income in conjunction with past income history and pay records when a W-2 for their current employer has not been issued yet
    - An offer of employment may not be used if employer is family member
- VOE Requirements
  - All VOE's are required to contain certain necessary information, such as:
    - Employment start date
    - Current year to date, and previous year's total gross income
    - If paid hourly, the number of hours worked, hourly pay scale, and frequency of pay periods
    - A separation of commission income from base income, where applicable
  - ALL VOE's are required to contain other necessary information, such as:
    - Employer name and address
    - Name of contact,
    - Contact phone number, and
    - Date of verification

### Child Support/Alimony

- Required Documentation
  - A full copy of the Divorce Decree or court document ordering the payment be made

- Proof that the last payment was received
- Must be able to prove 3 year continuance
- Child support requires proof of child's age for each child

### Employment Contracts

- Required Documentation
  - Employment contract to show continuance
  - Pay records, if contract start date has elapsed, covering no less than the most recent 30 days (minimum of 2), valid within 90 days of close.
    - Employment contracts may not be used if employer is family member

### Foster Care Income

- Required Documentation
  - Verification of foster care income provided by letters from the organizations providing the income.
  - 12 month proof of receipt of income for foster-care services

### Notes Receivable

- Required Documentation
  - Copy of executed, unexpired, promissory note
  - Proof of payment, valid if dated within 60 days of close, AND
  - Proof of 36 months continuance
- Other Requirements
  - Income used to qualify the borrower must be net of applicable expenses
    - Dwelling secured promissory notes which do not indicate which party is liable for taxes will have taxes removed from the payment as an expense
    - Dwelling secured promissory notes will not have a 25% vacancy factor applied
  - Payments received which are greater than the contractual amount listed on the promissory note may be used to qualify the borrower if the payment does not reduce continuance to less than 36 months.

### Non-Taxable Income

Non-taxable income must be evidenced as non-taxable in order to be grossed up. This income will be "grossed up" at 120%. Non-taxable income may include but is not limited to:

- Disability income
- Pension
- Social Security income
- Parsonage income

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

### Pension Income

- Required Documentation:
  - Award or Pension Verification Letter
- This may be grossed-up if proof can be provided on most-recent tax return showing that the pension is non-taxable and that taxes are not deducted from monthly payment.

## Rental Income

### Basic Requirements

- Rental Income being used will be entered and calculated in the loan origination software for all personally owned properties.
- All rental properties regardless of geographic location must be correctly entered in the REO section, must include all mortgage payments, taxes, insurance, and association fees.
- Processing must verify if mortgage payments include escrow and to what extent, so as to avoid calculating costs twice.
- Rental income for all properties must have income verified from the same source type.
- Processing is responsible for verifying and documenting PITI and HOA calculations.
  - A 25% vacancy and maintenance factor will be deducted from gross rental income.
  - In addition to the REO section being completed in the loan origination software the following will be required to be completed:
    - Liabilities
    - Fully escrowed mortgage statement and applicable HOA dues OR
    - Mortgage statement or private note, tax statement(s), HOI and HOA dues
  - Regardless of property occupancy type, all rental income will be calculated by reducing total housing expenses by rental income after the vacancy factor. Rental income, or expenses, from all properties will be totaled and applied in the following manner:
    - If the result is a positive number, rental income is to be included in the borrower's total income,
    - If the result is a negative number, rental loss is to be included in the borrower's total liabilities.

### Current Rental Income

- Required Documentation
  - Rental properties owned by the borrower for 12 months or more may provide either:
    - Most current year's IRS Schedule E, or
    - A copy of the current or expired lease signed by all parties, and proof of payment, valid if dated within 90 days at close
      - Renters paying by cash must be verified to live at the address by using Accurant, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.
  - Rental properties owned by the borrower for less than 12 months must provide:
    - A copy of the current lease, signed by all parties, and
    - Proof of payment, valid if dated within 90 days at close.
      - Renters paying by cash must be verified to live at the address by using Accurant, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.

### Future Leases

- Purchases of investment property
  - Required Documentation:
    - Rent schedule (Fannie Mae form 1007 or 1025) completed by a certified appraiser.
- Currently owned property converted to investment property
  - Required Documentation

- Signed copy of the future lease along with proof of security deposit, or
- Signed copy of the future lease along with a Zillow rent estimate of a comparable property.
- Future leases which are reasonably close to the Zillow rent estimate may use the future lease amount.
- Future leases which are unreasonably greater or less than a Zillow rent estimate will have the lesser rent amount used in calculating income.
- Not available when FNBA underwriting policy determines the currently owned property will remain a primary residence.

### Vacation Rentals

- Program Requirements
  - Rental income from properties that are usually based on a 3<sup>rd</sup> party, such as AirBnB.
    - Borrowers not using a 3<sup>rd</sup> party are not excluded from having income calculated in this manner, but must still adhere to the documentation requirements
  - Income from these sources will be calculated by dividing the total yearly income verified by 12 to determine monthly income.
- Required Documentation:
  - Most recent 1099 from 3<sup>rd</sup> party management company, or
  - Most recent tax returns, or
  - Schedule of rents from a Property Management Company.

### Purchase of Investment Property with Existing Lease

- Required Documentation:
  - The current lease may be used when signed and dated by Seller and Tenant.
  - Written proof that borrower will assume the lease.

### Rental Income as Primary Income Source

- Borrowers applying to purchase a new rental property must be handled by the commercial department if:
  - They own 8 or more financed rental properties, and rely primarily on rental income, or
  - Rely solely on rental income regardless of the number of properties owned

### Rental Properties Owned by Multiple Individuals, or Businesses not Wholly Owned

- Required Documentation:
  - Lease agreements signed by all parties, or schedule E of the borrower's tax return,
  - Mortgage statement, if applicable,
  - Homeowner's insurance statement, and
  - Proof of payment
    - Renters paying by cash must be verified to live at the address by using Accurint, White Pages online, utility bill, or other method which can verify the renter listed on the lease resides at the property in question.
- Borrowers using rental income to qualify in which the borrower is not the sole owner must have the net rental income, or loss, divided by the number of owners, or the percentage of ownership listed on the K-1 of the borrower's tax returns.
- Rental properties with more than 1 unit may include the gross rental income of every rental property unit, or fewer, as applicable to qualify the borrower.
- Net rental income used to qualify the borrower must include all mortgage payments, taxes, and insurance regardless of whether or not the borrower is listed on the documents.

If any requirements as listed above are not documented or available, underwriter approval is required.

## Retirement, Social Security, Disability & VA Income

- Required Documentation
  - Current awards letter addressed to the borrower dated within the last 12 months, or
  - IRS form 1099, or
  - W-2, or
  - Proof of receipt, valid if dated within 90 days of close
  - Retirement income distributed from a qualified retirement account must show proof of 36 months of continuance
    - Continuance may be proven by a statement of the qualified retirement account showing a sum greater, or equal, to 36 months of the distribution being used in the income calculation after subtracting any loan transaction down payment, or other closing costs coming from the qualified retirement account.
    - Income used to qualify the borrower will be the same as the amount distributed from the retirement account.
    - Distributions from the retirement account required
    - Borrowers younger than 59 ½ years old at time of closing will have income distributions used to qualify the borrower reduced by 10%
- Income received from Social Security can be “grossed up” at 120% based on being non-taxable in nature.
- Social Security or Disability income for a spouse, minor child, or disabled person who is not a borrower may be used if:
  - Borrower is listed on the awards letter, or can show proof of SSI deposit, AND
  - 3 or more years of continuance can be shown (disability is presumed to meet this requirement, unless disabled person is a minor child).

## Self Employment Income

### Tax Returns

- Required Documentation if using Tax Returns as proof
  - Previous calendar year’s signed personal tax returns with all schedules,
  - Previous calendar year’s signed business tax returns for all businesses with all schedules (can be waived at underwriter discretion),
  - A letter of explanation for any losses or significant changes in income,
  - Borrowers filing an extension must provide:
    - Proof of extension filed with the IRS, and
    - Most recent filed tax return
- Personal tax returns must evidence the borrower’s tax identification number (SSN / ITIN)
- Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by process underwriting on a case by case basis.

### Profit and Loss Statements

- Required Documentation if utilizing a Profit and Loss Statement
  - Profit and loss covering the previous 12 months, valid if the most recent month is dated within 90 days of close.
  - Reviewed by an appropriate 3<sup>rd</sup> party.
    - To be “reviewed”, the appropriate 3<sup>rd</sup> party must sign and date the profit and loss along with a statement attesting to the accuracy of the profit and loss statement, independence of the reviewer, and absence of compensation in return to the application for credit.

- An appropriate 3<sup>rd</sup> party include:
  - Individuals holding a state or federal designation, certification, or license acquired by an examination of competency related to finance, as well as on-going education to maintain. Including, but not limited to:
    - Certified Public Accountants,
    - IRS Enrolled Agents, or
    - IRS Annual Filing Season Participants (AFSP)
  - Individuals holding only a Preparer Tax identification Number (PTIN) require experience validated by at least one of the following:
    - Verified 2 years existence of tax preparation business for self-employed preparers,
    - Verified 2 years work experience at tax preparation business,
    - Minimum of 50 tax returns filed under the PTIN, or
    - Other reliable means
- Proof that the appropriate 3<sup>rd</sup> party completing the review is duly licensed, or certified
  - Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3<sup>rd</sup> party
- Verbal verification of the information contained within the profit and loss statement, as well as verification the reviewer signed, using contact information obtained from an independent source required if the profit and loss is not obtained directly from the preparer
- Proof the business has been in operation for 12 months or greater
- Statement by the borrower describing the nature of the business, types of expenses incurred, whether the client reimburses or pays for materials or supplies, methods of receiving payment, and type of location from which the business operates (home, storefront, etc...)
- Certification of business ownership percentage if business is a corporate entity and profit and loss covers the business. (see Exhibit A)
- Independence Verification
  - 3<sup>rd</sup> party preparer/reviewer must sign an attestation regarding their independent for each profit and loss statement.
- Other Requirements
  - Profit and loss must not be unusual for the industry described
  - Profit and loss statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification
  - Profit and loss statement which evidence a 20% monthly income increase over other reasonably reliable 3<sup>rd</sup> party documentation submitted to FNBA will require a letter of explanation from the borrower describing a reasonable nature of the increase

## Bank Statements

- Basic Requirements if utilizing Bank Statements:
  - Borrower must be self-employed for a minimum of 12months
    - Borrowers who receive a W-2 as well as cash from tips, or other supplemental income, which are not documented on the W-2 may be qualified using this program.
  - Bank statements being used to verify income which contain rental income must still adhere to the documentation requirements of the rental income section of this guide.
    - Rental income should be entered into the loan origination software and not included in the bank statement analysis.



- If a joint bank account is used and only one individual is a borrower, the borrower must explain which deposits on the account are attributed to the borrower.
- Bank statements must be in United States Dollars (\$USD) for all borrowers
- Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by process underwriting on a case by case basis.
- Borrowers submitting 12 months of both personal and business bank statements will have both accounts analyzed as a business bank statement.
  - Borrowers that submit 12 months of both personal and business bank statements do not require both accounts to be analyzed if the borrower qualifies using either method alone.

## Personal Bank Statements

- Required Documentation:
  - Borrowers must supply a written statement clearly describing
    - the nature of their business,
    - type of business structure
    - business ownership percentage
    - number of employees
    - gross annual revenue
    - the sources from which income is generated, and
    - the types of expenses necessary to maintain business continuance
  - Most recent 12-consecutive months of any personal bank statements being used to qualify the borrower at the time of application.
    - Bank statements used are valid if the most recent statement is dated within 90 days of closing.
  - Most recent statement at the time of application of each business account transferring money to, or from, the personal account
- Analysis:
  - All deposits into the personal account will be used to qualify the borrower unless a deposit meets the criteria below:
    - Unusual in character, or size, unless proven to be generated by the business;
      - A deposit unusual in size includes a deposit that is equal to, or greater, than 100% of the average monthly qualified deposits.
      - Income underwriters may determine a deposit is unusual in character, or size at their discretion.
      - Interest earned on the account;
  - Product, or service, refunds;
  - Transfers between other personal accounts;
  - Transfers from accounts of which we have no record, not including money service accounts, such as: Paypal, Venmo, or Zelle.
  - Transfers to the business account will be netted against incoming deposits unless a letter of explanation provides a reasonable reason for outflows back to the business.
- Business account statements will be reviewed to ensure expenses necessary to maintain the business are being paid from the business account.
  - Business accounts which do not evidence relevant expenses will require analyzing the personal account as a business account.

- Expenditures in personal accounts to vendors commonly used by the business will not invalidate the personal account analysis.

## Business Bank Statements

- Required Documentation
  - Borrowers must supply a written statement (Bank statement income questionnaire, or BSI”) clearly describing:
    - The nature of their business,
    - Type of business structure,
    - Business ownership percentage,
    - Number of employees,
    - Gross annual revenue,
    - The sources from which income is generated, and
    - The types of expenses necessary to maintain business continuance.
  - Most recent 12-consecutive months of any business bank statement being used to qualify the borrower at the time of application
    - Bank statements used are valid if the most recent statement is dated within 90 days of closing.
    - Deposits unusual in character or size may require proof the source is of an ongoing business nature to be considered a qualified deposit.
  - Proof of business ownership percentage
    - Not applicable for borrower’s operating a sole proprietorship
    - Certification of business ownership (Exhibit A), or IRS form K-1 may be used to satisfy this requirement
- Analysis
  - Business bank statements will be reviewed for qualified deposits.
    - Qualified deposits include all deposits from a 3rd party received as compensation for the business or service provided by the borrower.
    - Transfers from other borrower bank accounts, interest earned, refunds from any source, or reimbursements are not qualified deposits.
    - Deposits unusual in character or size may require proof the source is of an ongoing business nature
      - A deposit unusual in size includes a deposit that is equal to, or greater, than 100% of the average monthly qualified deposits.
      - Income underwriters may determine a deposit is unusual in character, or size at their discretion.
      - Interest earned on the account;
  - A borrower may qualify by using any one of the following:
    - Net cash flow used to qualify the borrower as determined by reducing qualified deposits by a 3rd party expense ratio specific to the nearest industry, geography, organizational structure, nature, and gross revenue of the borrower’s business; or
      - The total industry expense ratio may be reduced by categories of expenses indicated as not applicable by the borrower on the BSI form.
      - Expenses removed from the ratio must be validated as not applicable by a review of two months’ bank statements with the largest withdrawals.

- Underwriting must document the validation of inapplicable expenses by marking the months reviewed, and describing the analysis used to justify the removal in the loan origination system.
- Review of bank statements to validate expenses marked as inapplicable that do not evidence the expenses, but do evidence credit card payments that could reasonably cover business expenses will have an expense percentage for sales, general, and administrative costs included in the analysis, unless a letter of explanation can reasonably justify removing the expense.
- A record of the industry expense ratio used for qualification purposes must be retained.
- Net cash flow used to qualify the borrower as determined by reducing qualified deposits by the total amount of credits to the business account.
- Net cash flow used to qualify the borrower determined by reducing qualified deposits using an expense ratio from an appropriate 3<sup>rd</sup> party.
  - Appropriate 3<sup>rd</sup> party must acknowledge, complete, and sign an expense ratio program questionnaire including information regarding:
    - Description of borrower's business,
    - Explanation for specific expenses not applicable to the borrower's business,
    - NAICS code of borrower's business,
    - Time period reviewed by the preparer in developing the expense ratio, covering 12 consecutive months, and beginning no earlier than January 1<sup>st</sup> of the previous calendar year, and
    - Expense ratio of the borrower's business as determined by the appropriate 3<sup>rd</sup> party preparer.
  - Expenses removed from the ratio require validation as not applicable by a review of two months' bank statements with the largest withdrawals.
  - The appropriate 3<sup>rd</sup> party must sign and date an attestation as to the accuracy of the expense ratio, independence of the reviewer, and absence of compensation in relation to the application for credit.
    - The 3<sup>rd</sup> party preparer's name and address will be reviewed against the borrower, mortgage broker, title company, and real estate agents to ensure independence.
  - An appropriate 3<sup>rd</sup> party includes:
    - Individuals holding a state or federal designation, certification, or license acquired by an examination of competency related to finance, as well as on-going education to maintain. Including, but not limited to:
      - Certified Public Accountants,
      - IRS Enrolled Agents, or
      - IRS Annual Filing Season Participants (AFSP's).
    - Individuals holding only a Preparer Tax Identification Number require experience validated by at least one of the following:
      - Verified 2 years existence of tax preparation business for self-employed preparers,
      - Verified 2 years work experience at tax preparation business,

- Minimum of 50 tax returns filed by the PTIN, or
  - Other reliable means.
- Proof the 3<sup>rd</sup> party completing the expense ratio is duly licensed, or certified
- Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3<sup>rd</sup> party
- A record of the 3<sup>rd</sup> party preparer's name, address, certification, and license, or applicable identifier must be retained in the loan origination system.
- Verbal verification the appropriate 3<sup>rd</sup> party prepared the expense ratio, as well as verification the reviewer signed, using contact information obtained from an independent source required if the expense ratio is not obtained directly from the preparer
  - A record of the verbal verification must be retained.
- Other Requirements
  - Expense ratio must not be unusual for the industry described
  - Expense ratios not meeting the requirements of this section, or which are suspicious in nature, may require additional verification

## Trust Income

- Required Documentation
  - Full Trust document will be required showing the amount, frequency and duration of disbursements
  - Proof of recent receipt
  - 3 or more years' continuance

## Foreign Income

- Basic Requirements
  - Any income from a source outside the U.S. must meet the documentation requirements of this part, as well as the income documentation from any other program used in conjunction with this section.
- Required Documentation
  - Previous calendar year's signed personal tax returns with all schedules,
  - Previous calendar year's signed business tax returns for all businesses with all schedules,
  - Letter of explanation for any losses or significant changes in income,
  - Borrowers filing an extension must provide:
    - Proof of extension filed with the IRS, and
    - Most recent filed tax return
  - Tax returns older than the previous calendar year will not be accepted past the extension deadline,
  - Personal tax returns must evidence the borrower's tax identification number,
  - Borrower must have reasonable expectation of income continuance, which may require supporting documentation as determined by underwriting on a case-by-case basis,
  - Tax returns showing monthly income 20% over other reasonably reliable 3<sup>rd</sup> party documentation submitted to FNBA will require a letter of explanation from the borrower describing a reasonable nature of the increase.

## Unacceptable Sources of Income

- Unemployment Income (if not documented with a minimum of 2 year history of receiving)

- Stock Options
- Gambling winnings (except lottery payments continuing for a minimum of 3 years)
- Educational benefits (such as grants and scholarships)
- Refunds of federal, state or local taxes
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:
  - Foreign shell banks
  - Medical marijuana dispensaries
  - Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law
  - Businesses engaged in any type of internet gambling
- Expense account reimbursement
- Mortgage Credit Certificates
- Homeownership Subsidies
- Income Received from Roommates

## VI. First National Bank of America Down Payments and Proof of Assets

### Down payment

- On purchase transactions, the Borrower may be required to make a minimum down payment with funds from his/her own resources.
- The amount of the minimum required down payment depends upon the documentation type and loan program.

### Acceptable Proof of Assets

#### Checking and Savings

- 2 most recent consecutive statements must be submitted with initial underwriting submission. Most recent statement must be dated within 30 days of initial submission
- 100% of the funds held in a checking or savings account may be used for the down payment, closing costs, and financial reserves
- Any indications of borrowed funds must be investigated. They include recently opened accounts, single deposits greater than 100% of qualifying monthly income, suspicious deposit patterns, or account balances that are considerably greater than the average balance over the previous few months.
  - Borrowers using funds from a non-borrowing spouse will have the same investigation completed.
- Funds held jointly with a non-borrowing spouse are considered the Borrower's funds

#### Business Assets

If business funds are used for down payment, closing costs and/or reserves the following requirements must be met:

- Provide proof of borrower's ownership percentage
- obtain access letter from business documenting borrower's access to funds
  - When applying for an 85% LTV, amount of business funds used cannot exceed ownership percentage

- Funds deposited from the business into the borrower’s personal account prior to loan application are considered personal funds

### Securities Assets

Stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs and reserves provided their value can be verified. Stock options are not eligible to be used for reserves or income.

### Trust Accounts

Funds disbursed from a borrowers trust account are an acceptable source for the down payment, closing costs and reserves provided the borrower has immediate access to the funds.

To document the trust funds:

- Obtain written documentation of the value of the trust account from either the trust manager or the trustee; AND
- Document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on the trust income used in qualifying the borrower for the mortgage

### Retirement Accounts

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

- FNBA must verify the ownership of the accounts
- When funds from retirement accounts are used for reserves, FNBA does not require the funds to be withdrawn from the account(s) and no penalties will be applied
- If used for down payment or closing costs, FNBA will determine the amount available by reducing the principal balance by 25% for applicable taxes and if necessary, an additional 10% for applicable penalties for early withdrawal

### UTMA and UGMA Assets

The Uniform Transfer to Minors Act (UTMA) and Uniform Gifts to Minors Act (UGMA) allow minors to own assets including securities. Individuals can establish UGMA accounts on behalf of minors or beneficiaries, eliminating the need for an attorney to establish a special trust fund. A UTMA account is a way to open an investment account for a child. Since minors can't legally own assets, a UTMA holds assets on a custodial basis for a child until age 18. Using funds improperly can trigger various penalties, some quite severe. Uniform Transfer to Minors Accounts carry certain tax advantages, but their structure also can be limiting.

Due to the unique nature of these types of assets, these funds may be used as outlined below:

1. These accounts, if owned outside of FNBA, may be used for down payment but will be treated as “gift funds”
2. These accounts may NOT be used with the Bank Statement Income / Asset Depletion or Ready Asset programs
3. Any borrower who has a UTMA or UGMA account at FNBA may NOT use those funds as assets, down payment or gift funds.

## Earnest Money Deposit

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs.

### *Verification of source of funds*

- Large earnest money deposits (those greater than 5% of sales price) will be closely evaluated

### *Receipt of the deposit must be verified by:*

- Copy of canceled check;
- Copy of check not canceled with financial institution record(s) to evidence check cleared;
- Escrow agent/attorney's letter acknowledging receipt of funds

## Anticipated Sales Proceeds

### *Sales Proceeds from Real Estate Owned Pending Sale*

- Obtain a copy of the preliminary Closing Disclosure from the sale of the existing home for review by the FNBA Underwriter
- The source of funds must be verified at closing by obtaining a copy of the fully executed Closing Disclosure/Settlement Statement on the existing home before or simultaneously with the settlement of the new home, showing sufficient cash proceeds to consummate the purchase of the new home

### *Corporate relocation plans*

- When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, obtain a copy of the executed buyout agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale

## Sale of Personal Assets

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

## Cash

Cash to close from actual cash deposited with a financial institution which is not a gift may be used for any program for which it is not excluded. In order to ensure the funds are not a loan which must be included in the borrower's debt to income ratio, as well as to protect against risk, significant cash deposited with a financial institution must adhere to the following requirements:

- Letter of explanation from the borrower on how the funds were saved, including the timeframe over which the funds were saved.
- Review by process underwriting to determine the reasonableness of the explanation on a case by case basis

## Gift Funds

Cash to close may come from gifted funds on any program for which it is not excluded, such as:

- Rental/Investment properties,
- Vacant Land

In order to ensure the funds are not a loan which must be included in the borrower’s debt to income ratio, as well as to protect against risk, gifted funds must be processed by a depository institution prior to being provided to the settlement agent, and must be evidenced by a letter which meets the following requirements:

- Specify the dollar amount of the gift;
- Specify the date the funds were transferred;
- Include a statement that no repayment is expected;
- Include the donor’s name, address, telephone number, relationship to borrower; and
- Bear the donor’s signature

### Gifts of Equity

- A gift of equity refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller’s equity in the property and is transferred to the buyer as a credit in the transaction.
- Up to a 100% gift of equity for down payment is permitted for **primary residences and second homes** if:
  - The transaction between buyer and seller is a non-arm’s length transaction. A non-arm’s length transaction would be when the buyers and sellers have an existing relationship with each other.
  - The sales price for the property is at market rate.
  - No seller concessions allowed, closing costs must be borrower’s own funds.
  - Liens against the subject property require a statement evidencing the lien is current.
- Non-owner occupied homes are not permitted to use gift of equity

### Sales & Financing Concessions

#### Concessions or Interested Party Contributions

FNBA will accept up to 6% as long as the purchase price is less than or equal to list price, if not we will accept up to 3% as long as the appraisal supports the higher price. Properties not listed for sale on open market (i.e. purchase of rental home, FSBO etc., seller concession maximum is 3%)

Example:

List Price:	\$100,000	\$90,000
Sales Price:	\$100,000	\$100,000
Seller Concessions per contract	6%	3%
Allowable Seller Concessions	6%	3%
Value used for LTV	\$100,000	\$100,000
Loan Amount at 80% LTV	\$80,000	\$80,000
Seller Concessions per contract	10%	10%
Allowable Seller Concessions	6%	3%
Value used for LTV	\$96,000	\$93,000
Loan Amount at 80% LTV	\$76,800	\$74,400

#### Personal Property (non-realty items)

Personal property items included in the sale of the home will not be included in the value of the sale. Personal items include:

- Furniture
- Automobiles
- Decorator allowances
- Moving costs



- Lawn equipment
- (house) boats
- docks
- tools
- Other giveaways

### Unacceptable Assets

- Digital Currency (ex. Bitcoin)
- Proceeds from a cash-out refinance cannot be used to meet reserve requirements for compensating factors
- Anticipated Savings
- Sweat Equity (labor performed by the Borrower or goods or materials provided by the Borrower)
- Donated funds in any form, such as cash or bonds donated by the seller, builder or Selling agent outside of approved financing contributions in the Seller Concession
- Trade Equity
- Pooled Funds
- Individual Development Accounts (IDA's)
- Funds in a Custodial or "In Trust For" account
- Rent Credits
- Non Vested Stock Options
- Stocks held in an unlisted corporation

## VII. First National Bank of America Eligible Collateral

### Eligible Properties

- One-unit Attached/Detached SFRs
- One-unit Attached/Detached PUDs
- Low/Mid-Rise (under 8 stories) Condos and Site Condos
- Warrantable and Non-warrantable condos
- 2-4 Unit Properties
- Mobile and manufactured one-unit housing (if not affixed, applications must include front and back of certificate of title; ALTA 7/etT-31 endorsement to title is required)
- Vacant land (*Gift funds not allowed*)
- Properties located adjacent to environmental hazards may be considered case by case
- Residential properties zoned commercial, must be grandfathered to rebuild residential and may be considered case by case
- Unique or unusual property types (i.e. homes off the grid, barndominiums, condotel, large acreage) will be considered on a case by case basis

### Accessory Units

Properties with accessory units are considered on a case by case basis.

### Multiple Dwellings on One Lot

Multiple dwellings on a single lot will be considered on a case by case basis. A maximum of three dwellings per property will be considered.

## Maximum Acreage

There are no maximum acreage limitations whether vacant land or residence with acreage. The appraiser must indicate the total acreage as well as provide data which indicates that like-size properties with similar land values are typical and common in the subject area's market.

Note: Vacant land may only be used with the Purchase Near Miss loan program. See rate sheet and guidelines for full details.

Address for vacant land property should be as follows: VL Street Name, City, State, Zip

i.e. VL S. Sprague Rd., Oregon City, OR 97045

## Agricultural Use

Properties with agricultural use or zoning are permitted.

## Leasehold Properties

Leasehold properties are not permitted. Borrower must have deed in fee simple prior to, or at close.

## Ineligible Property Types

- Co-ops
- Timeshares
- Commercial Enterprises (e.g. Bed and Breakfast, Boarding House, Hotel)
- Properties containing environmental hazards
- Projects with insufficient Flood Insurance – Borrower supplemented is not permitted

## Appraisals

Appraisals may be ordered through an AMC or by FNBA. FNBA requires that a copy of the appraisal be sent to the consumer promptly upon completion, and in no event later than 3 business days prior to closing. If sent electronically, FNBA will confirm the consumer has consented to receipt and also opened the appraisal attachment. If electronic consent/receipt is not confirmed, FNBA will mail a copy to the consumer following the above guidelines. Waivers of the appraisal timing requirements are not permitted.

If ordered through FNBA:

- A 1004/1004C/1073 will be ordered. (interior/exterior review)
- Investment properties will contain a rent comparable schedule form 1025
- Appraisals must be no more than 180 days at time of completion

If ordered through an AMC (by broker\*):

- A 1004/1004C/1073 must be provided. (interior/exterior review)
- Drive by appraisals (exterior only) are not acceptable
- AMC appraisals may not be ordered in the name of FNBA
- Investment properties must contain a rent comparable schedule form 1025
- Appraisals must be no more than 180 days at time of completion
- \*If broker is not a current registered client of FNBA, appraisal must be certified by completing appraiser

## Appraiser Licensing

The license requirements of the appraiser depend on property type and transaction value. Generally, a licensed or certified appraiser is sufficient. A *certified* general appraiser is necessary if the transaction is either:

- 1-4 family residential transaction value of \$1,000,000 or greater, or
- Complex transactions of \$400,000 or greater, or
- Vacant land transaction of \$400,000 or greater.

## Review

Every appraisal report obtained for a transaction will be reviewed by FNBA prior to funding the transaction. The Credit Underwriter will determine the sufficiency of the appraisal when received.

## Value Rebuttals

There may be times a Client or Broker are unhappy with the appraised value of the property. In order to prevent "Shopping for Value" the appraisal should go through the formalized rebuttal procedure prior to a second appraisal being considered. In order to be considered, Broker must provide no less than two comparable properties with their rebuttal request to Underwriting.

Once the rebuttal process is completed, if the Client or Broker are still not satisfied with the result, the appraisal should be forwarded to underwriting for review. Underwriting will review the appraisal and determine if the appraisal is deficient and will then direct the appraisal department to order a 2nd appraisal.

## Rapid Appreciation

### Refinance Transactions

Refinance transactions where appraised value exceeds original purchase price.

If owned less than 24 months (at time of application date):

- Borrower will be asked to provide a detailed breakdown of improvements, commentary and documentation to support a substantial increase in value

If owned greater than 24 months (at time of application date):

- Borrower may be asked to provide a detailed breakdown of improvements, commentary and documentation to support a substantial increase in value

### Purchases Transactions:

An FNBA underwriter may request a detailed breakdown of improvements, commentary and documentation to support either a purchase price greater than 5% of the list price, or a substantial increase in value between the sellers purchase price and the current sales price for the following:

- Appreciation greater than 10% in the past 90 days, or
- Appreciation greater than 20% in the past 91-180 days, or
- Appreciation greater than 30% in the past 181-365 days

## Property Flips

A property flip occurs when the seller acquired the property within 180 days. The time period is determined by subtracting the date the seller became the legal owner of the property from the date the purchaser signed the purchase contract. If the seller and purchaser signed the purchase agreement on two separate days the latter of the two dates is to be used. Maximum LTV is 80%.

If it is determined that seller has acquired property in last 180 days and the transaction is subject to Higher Priced Mortgage Loan (Section 35) second appraisal requirement, FNBA will determine whether or not a second appraisal needs to be ordered. If a second appraisal is required due to Section 35, FNBA will request and pay for this appraisal.

Purchases:

- Appreciation greater than 10% in the past 90 days, 2 full appraisals may be required. The lender must pay for the cost of the second appraisal.
- Appreciation greater than 20% in the past 91-180 days, 2 full appraisals may be required. The lender must pay for the cost of the second appraisal.
- Appreciation greater than 30% in the past 181-365 days requires secondary review by FNBA Underwriter.
  - A detailed breakdown, substantial commentary and documentation to support the increase in value may be requested by FNBA
  - Appraised value must support this increase

When two appraisals are required regardless of the transaction type the lesser of the two values will be used for qualification purposes.

A second appraisal is not required if:

- Seller is a local, State or Federal government agency;
- Seller acquired title by exercising right as holder of defaulted mortgage loan;
- Seller is non-profit
- Seller inherited the property
- Seller acquired property by divorce decree
- Seller is an employer or relocation agency
- Seller is a service member who received deployment, or permanent change of station order after they obtained the property
- Property is located in a federal disaster area
- Loan amount is less than \$26,000
- Property is located in a “rural” area as defined by 1026.35(b)(2)(iv)(A)

## VIII. First National Bank of America Documentation Requirements

### Age of Documentation

- Credit Report – not to exceed 90 days on the date the Note is signed
- Income – most recent document not to exceed 90 days on the date the Note is signed
- Assets – most recent document not to exceed 90 days on the date the Note is signed
  - 2 most recent consecutive statements must be submitted with initial underwriting submission. Most recent statement must be dated within 30 days of initial submission
- Appraisals - not to exceed 180 days old on the date of the completion; appraisal updates are not permitted
- Title work – Effective date of title commitment not to exceed 90 days on the date the Note is signed

## Deferred Loan Proceeds (Escrow for Repairs)

Escrow holdbacks and repair agreements are determined on a case by case basis. Disbursement schedule to follow FNBA underwriting approval. Requests for escrow should include:

- Minimum one bid for work to be completed (Underwriting discretion);
- Name of entity/party doing the work;
- Any contractor being paid must provide W9;
- Total amount to be paid to the individual parties; and
- Disbursements are addressed to borrower(s) and contractor.

Upon completion of the work, borrower must provide color photographs and receipts for review prior to final disbursement.

## Exception Process

Loans that do not fully comply with documented guidelines, policies, or procedures are known as “exceptions” and may be considered on a case by case basis.

- Exceptions may be granted with the presence of strong compensating factors to mitigate any additional performance risks
- Exceptions must be submitted through the loan file’s underwriter to be reviewed and approved by an eligible designated member of the FNBA leadership team. Exceptions may require special pricing, as determined on a case-by-case basis.

## Excluded Parties Lists

All borrowers and co-borrowers involved in each transaction are screened for inclusion on various lists, including without limitation the Office of Foreign Asset Control (OFAC) list.

All name variations found throughout the loan file must be run when performing the searches. If a match is determined, the loan may be ineligible.

## Flood Insurance

Federal regulations require that flood insurance be in place prior to consummating a loan on any building taken as collateral which is located in a specified flood hazard area. To comply with the requirement, a flood determination must be ordered on every loan in which a building is taken as collateral. A “building” for purposes of this section means a structure, including a mobile, or manufactured home, that is:

- Permanently affixed to the property,
- Has load-bearing walls and roof

If any building located on the property being secured by the loan is located in a special flood hazard area “A” or “V”, as listed on the determination, flood insurance is required. The following steps must also be completed:

- Notice of the flood determination must be disclosed to the consumer, along with a record that the consumer received such notice
- If the property is in a special flood hazard area zone “A” or “V”, prompt notice to the consumer that flood insurance will be required,
- Prior to the consummation of the transaction, FNBA also requires
  - Evidence of 1st year flood insurance premiums paid in full,
  - Insurance effective date prior to the date of consummation, and an

- Escrow account established to pay for subsequent years of insurance coverage prior to the consummation of the transaction

A loan transaction will not be consummated until a property which is determined to require flood insurance has insurance that covers the applicable special flood hazard area zone, and has the minimum amount of coverage in place. The minimum amount of coverage required must equal the lesser of:

- The outstanding principal balance of the loan,
- The maximum amount available under the NFIP for the type of structure, or:
  - \$250,000 for residential property structures,
  - \$500,000 for nonresidential structures, and
  - \$500,000 for non-condominium residential buildings of 5+ units
- The insurable value of the property as determined by the replacement cost value as determined by flood insurance policy.
  - If replacement cost value is not listed on the flood insurance policy, the insurance agent will need to be contacted to obtain the information
- Detached structures on the property which are not a residence do not require flood insurance
- Flood insurance policies not issued by an insurance company which participates in the National Flood Insurance Program (NFIP), must have the policy reviewed to ensure that the policy meets, or exceeds, FEMA guidelines

## Deductibles

The **minimum** deductible **cannot be less than the standard NFIP, i.e.** by a Preferred Risk Policy (PRP) is \$1,000 each for both building and contents coverage if the building coverage is less than or equal to \$100,000; if the building coverage is over \$100,000, the deductible is \$1,250, regardless of the insured building's construction date compared to the initial flood insurance rate map (FIRM) date. A contents-only policy will have a \$1,000 deductible.

## NFIP Funding Lapses

Based on current law, the government funding required to operate the NFIP has an expiration date. When funding expires, the NFIP cannot accept applications until a new bill authorizing funding is enacted. In the event that funding for the NFIP has expired, the following rules apply:

- Loans requiring flood insurance may be closed if:
  - An application for flood insurance through the NFIP was made prior to the lapse in funding and the premium payment is received by NFIP within 30 days of closing from the settlement agent, or
  - Flood insurance is obtained through a private flood insurer as defined in this section.
- Loans requiring flood insurance may not be closed until NFIP funding is renewed if:
  - The consumer chooses an NFIP policy, and
  - The application for flood insurance through the NFIP was made after the lapse in funding

## Hazard Insurance

Hazard insurance, otherwise known as Homeowners Insurance (HOI), insures against loss due to fire or other hazards. Prior to consummating a loan, a hazard insurance policy must be in place on the property. Ensure the following requirements are met prior to consummation.

The minimum amount of coverage required must equal the lesser of:

- The loan amount, or
- The insurable value disclosed on the hazard insurance declarations page
  - If the insurable value is not listed on the hazard insurance declarations page, the insurance agent will need to be contacted to obtain the information
  - Declaration page must indicate the actual value insured if unable to obtain the replacement cost estimator (RCE).

A deductible is the amount an insured party must pay prior to an insurance company issuing reimbursement for any loss. FNBA requires the insurance policy to have a deductible that adheres to the following:

- Not to exceed the greater of \$5,000, or 2% of the coverage amount.
  - Coverage amount must be equal to, or greater than, the loan amount.
  - Dwelling coverage on the hazard insurance policy is the coverage amount.
- Deductibles more than specified above must be approved by underwriting

Hazard insurance must cover the appropriate persons, property, and amounts. The policy must also cover against loss in a certain timeframe. Therefore, the following are required:

- Policy must have an effective date on or before the consummation date
- Policy must list the correct property address
- Policy must list the consumer
- FNBA must be listed as on the policy as being the mortgagee
  - Must list "FNBA-ISAOA"
  - Insurance policy must be equal to or greater than the loan balance
- Condominiums require hazard insurance to cover the structure, as well as coverage to repair in the interior space

### Condominiums and Home Owners Associations

Condominiums, and home owner associations (HOA) often have an insurance policy which covers the entire building, and which is paid by the monthly dues. These are called master policies. In situations involving a master insurance policy, the following rules apply:

- Condominiums require a policy covering interior finished (H06 policy) in an amount sufficient to repair the condominium to the condition it was in at origination. Policy must include estimated replacement cost.
- Condominium, or HOA, master insurance policy may meet hazard insurance requirement if the coverage per unit is equal to or greater than the loan balance
  - Condominium, or HOA, master insurance policies do not have to meet the deductible requirements listed
- Consumers will be required to obtain supplemental private hazard insurance policies if the condominium, or HOA, master insurance policies do not meet the minimum coverage requirements

### Mortgagee Clause

FNBA must be listed as on all insurance policies as follows:

FNBA-ISAOA  
PO Box 980  
East Lansing, MI 48826

## Prepayment Penalty

FNBA Residential Lending products do not have prepayment penalties.

## Process to Add or Remove Borrowers

Adding a borrower to a loan at any time during the loan process is generally not acceptable and requires a new application. Removing a borrower without requiring a new application considered on a case-by-case basis. Contact your Account Executive for more information.

## Title Insurance

Title insurance covers against loss relating to intervening interests in property. Title companies search through the records of government entities in order to determine if any interests could arise which would affect the security interest of the proposed loan. Intervening interests can include, but are not limited to, errors in transfers in ownership, tax liens, prior mortgages, and construction liens. FNBA requires a title policy insuring the proposed lien is in first priority on every loan prior to consummation.

## Basic Requirements

Title insurance policies must meet the following minimum requirements prior to consummation of the transaction:

- Title insurance policy must cover the full loan amount
- FNBA ISAOA must be listed as the insured
- The property legal description must match other documentation in the file, including the appraisal, purchase agreement, and tax bill
- Must provide current and unexpired CPL. In the state of New York, E/O Insurance may be accepted in lieu of Closing Protection Letter (CPL).
- Title company issuing the insurance policy must have an “A” rating or better with one of these title rating companies:
  - Standard & Poor (S&P)
  - Demotech
  - A.M. Best

## Mobile /Manufactured Homes

Title insurance must include an ALTA 7/T-31 endorsement to the title commitment for all mobile homes and/or manufactured properties.

## Services for Which the Borrower May Shop

Title insurance is one settlement service for which FNBA allows the consumer to shop for a provider. In order to allow the consumer to shop for this service, the following is required:

- Settlement services you can shop for list accompanying the initial LE with at least one provider suggested for each service

## Non-Individual Ownership

### Trusts

When closing a loan with title to the property held in the name of a Trust, you must provide a copy of the complete Trust instrument for review by the Title Company and FNBA.



In lieu of the full Trust instrument, FNBA will allow the use of a state specific Certificate of Trust. Certificates of Trust may be used if the following is contained within the certificate:

1. Name of trust, date of trust, and date of any trust instrument
2. Identity of the settlor
3. Tax ID of trust (SSN or EIN)
4. Name and address of each current trustee
5. Powers of the trustees relating to the purposes for which the certificate of trust is offered
6. Revocability, or irrevocability of the trust and identity of any person hold power to revoke
7. Authority of co-trustees to sign on behalf of trust, and whether all of the trustees are necessary to exercise the required powers
8. Manner in which title will be taken by trust (“John Doe, trustee of Doe Family Living Trust, dated 1/1/2019”)
9. Must be signed and authenticated, by settlor, any trustee, or an attorney for the settlor, or trustee.
10. Certificate must be in the form of an affidavit.
11. Must state that the trust has not been revoked, modified, or amended in any manner that would cause the representations included to be incorrect.

Whether using the complete Trust instrument or Certificate of Trust, to be acceptable, title may not take exception to either the Trust or the Trustee.

## **LLC**

When closing a loan with title to the property held in the name of an LLC, you must provide a copy of the operating statement and signing authority for review by the Title Company and FNBA. Title may not take exception to the LLC.

EXHIBIT A

CERTIFICATION OF OWNER(S)

Please provide the following information for an individual(s), if any, who, directly or indirectly through any contract arrangement, understanding, relationship, or otherwise owns equity interests of the legal entity listed below.

Owner Name Ownership Percentage

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

I, the undersigned, hereby certify, to the best of my knowledge, that the information provided in the Certification of Owners (s) form, is complete and accurate, and I acknowledge that misrepresentation of such information for a mortgage application is a federal crime which may result in penalties, and/or imprisonment.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Legal Entity Name: \_\_\_\_\_

Title: \_\_\_\_\_