JMAC LENDING

Laguna Jumbo Matrix

Revised 12/05/2022

Primary - Purchase and Refinance Rate & Term Only LG-NCF30, LG-NCF15, LG-NCF5/6, LG-NCF7/6, LG-NCF10/6						
		SFR Detached / Attached, PUD, Detached Condo[4]	Attached Condo	2-Unit	3 to 4-Unit	Min. Fico Score
Loan Amount[1,2] / Combined loan amount[2]	Market Class	Max LTV/CLTV[3,4]	Max LTV/CLTV[3,4]	Max LTV/CLTV[3,4]	Max LTV/CLTV[3,4]	
<= $2,000,000	1	80%	80% with Fico >= 720 75% with Fico < 720	75%	N/A	700 – Fixed Rate 720 ARMs
	2	80%	80% with Fico >= 720 75% with Fico < 720	75%		
	3	75%	75% with Fico >= 720 70% with Fico < 720	70%		
	4	70%	70% with Fico >= 720 65% with Fico < 720	65%		
>$2,000,000-$2,500,000	1	75%	75% with Fico >= 720 70% with Fico < 720	N/A	N/A	
	2	75%	75% with Fico >= 720 70% with Fico < 720			
	3	70%	70% with Fico >= 720 65% with Fico < 720			
	4	65%	65% with Fico >= 720 60% with Fico < 720			
>$2,500,000 - $3,000,000	1	70%	70% with Fico >= 720 65% with Fico < 720	N/A	N/A	
	2	70%	70% with Fico >= 720 65% with Fico < 720			
	3	65%	65% with Fico >= 720 60% with Fico < 720			
	4	60%	60% with Fico >= 720 55% with Fico < 720			

1 All loans must be submitted in whole dollar amounts.
2 First loan amounts must be greater than the standard maximum contiguous U.S. based on property types.
3 Combined loan amount (total of all loans and liens against the subject property) applies when secondary financing exists.
4 Credit events such as bankruptcy, foreclosures, DIL, forbearance non-CARES Act, and loan modifications requires 84 months of reestablished credit since the discharged, dismissal or completion date.

Note: Max DTI 43%

Primary Cash-Out transactions LG-NCF30, LG-NCF15, LG-NCF5/6, LG-NCF7/6, LG-NCF10/6			
		SFR Detached / Attached, PUD, Condo	Min. Fico Score
Loan Amount[1,2]/ Combined loan amount[3]	Market Class	Max LTV/CLTV[5]	
<= $1,500,000	1	70%	720
	2	70%	
	3	65%	
	4	60%	
> $1,500,000 - $2,000,000	1	65%	
	2	65%	
	3	60%	
	4	55%	

1 All loans must be submitted in whole dollar amounts. $2M maximum loan amount.
2 First loan amounts must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit.
3 Combined loan amount (total of all loans and lines against the subject property) applies when secondary financing exists.
5 Credit events such as bankruptcy, foreclosures, DIL, forbearance non-CARES Act, and loan modifications requires 84 months of reestablished credit since the discharged, dismissal, or completion date.

Note:

- Maximum cash-out is $1M
- Max DTI 40%

Second Home – Purchase and Rate / Term Refinance LG-NCF30, LG-NCF15, LG-NCF5/6, LG-NCF7/6, LG-NCF10/6				
		SFR Detached/Attached, PUD, Detached Condo	Attached Condo	Minimum Fico Score
Loan Amount[1,2] / combined loan amount[3]	Market Class	Max LTV/CLTV[5,6]	Max LTV/Max CLTV[5]	
<= $1,500,000	1	80%	80% with Fico >= 720 75% with Fico < 720	700 – Fixed Rate 720 - ARMs
	2	75%	75% with Fico >= 720 70% with Fico < 720	
	3	70%	70% with Fico >= 720 65% with Fico < 720	
	4	65%	65% with Fico >= 720 60% with Fico < 720	
>$1,500,000 - $2,000,000	1	75%	75% with Fico >= 720 70% with Fico < 720	
	2	70%	70% with Fico >= 720 65% with Fico < 720	
	3	65%	65% with Fico >= 720 60% with Fico < 720	
	4	60%	60% with Fico >= 720 55% with Fico < 720	

1 All loans must be submitted in whole dollar amounts. $2M maximum loan amount.
2 First loan amounts must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit, maximum combined CLTV loan amount is $2M.
3 Combined loan amount (total of all loans and lines against the subject property) applies when secondary financing exists.
5 Credit events such as bankruptcy, foreclosures, DIL, forbearance non-CARES Act, and loan modifications requires 84 months of reestablished credit since the discharged, dismissal, or completion date.

Note: Max DTI 40%

Second Home – Cash Out Refinance LG-NCF30, LG-NCF15, LG-NCF5/6, LG-NCF7/6, LG-NCF10/6				
		SFR Detached/Attached, PUD, Condo[5]	Minimum Fico Score	
Loan Amount[1,2] / combined loan amount[3]	**Market Class**	**Max LTV/CLTV**		
<=$650,000	1	70%	720	
	2	70%		
	3	65%		
	4	60%		
<= $650,000-$1,500,000	1	65%		
	2	65%		
	3	60%		
	4	55%		
> $1,500,000 - $2,000,000	1	60%		
	2	60%		
	3	55%		
	4	50%		

1 All loans must be submitted in whole dollar amounts. $2M maximum loan amount.
2 First loan amounts must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit.
3 Combined loan amount (total of all loans and lines against the subject property) applies when secondary financing exists. Maximum combined CLTV loan amount is $2M.

Note:
- Maximum cash-out is $1M
- Max DTI 40%

GENERAL GUIDELINES	
Loan Application	• Loan must be Qualified Mortgages (QMs) under the CFPB Qualified Mortgage Definition under the Truth in Lending Act.
Regulatory Compliance	• **High-Cost Limits**: Loans exceeding any applicable federal, state, or municipal High-Cost limits are **not eligible** for purchase by Lender (e.g., HOEPA). • **HPML/HPCT**: Higher-Priced Mortgage Loans (HPML) are ineligible for purchase in this program. • The maximum points and fees are limited to 3%. Example of why a loan would fail HPML/HPCT: • High balance loan amounts: If the APR is 1.5% points or more higher than the APOR • Jumbo loan amounts: if the APR is 2.5% or more higher than the APOR
AUS	DU findings of "Approve/Eligible" or "Approve/Ineligible" required.
Products	SOFR ARM (5/6, 7/6 and 10/6), FIXED (15, and 30)
ARM Information	30-day average of the SOFR index, as published by the Federal Reserve Bank of New York. Caps: 2% initial adjust. 1% per adjust. , thereafter, 5% Life , Margin: 2.75%
Eligible Borrowers	US Citizens; Permanent Resident Aliens; Non-Permanent Resident Aliens allowed with required VISAs); Revocable Trust; Must have valid Social Security Number; Maximum of 4 borrowers per loan application are allowed Non-Permanent Required VISAs: A Series (A-1, A-2, A-3), E-1, E-2, E-3, G Series (G-1, G-2, G-3, G-4, G-5), H-1 (includes H-1B and H-1C), H-4, L-1, L-2, O-1A, O-1B, O-2, TN NAFTA for Canadian and Mexican Citizens, TC, NAFTA for Canadian citizens for professional or business purpose. **If green card or non-permanent status will expire within 5 months of funding may be considered if the borrower provides evidence of renewal or extension.**
Minimum Loan Amount	Non-Conforming first Loan Amounts must be at least $1 higher than the standard conforming loan limit base on property type.

Qualifying Ratios	• Maximum bottom-end ratio (DTI):
	    ○ Owner Occupied: 43% (FIXED) and 43% (ARM)
	    ○ Second home: 40%
	    ○ Cash-Out: 40%
	    ○ LTV > 80%: 35%
	
	• **For LTV <= 80%, if front-end ratio is greater than 36%, refer to the declining income guides.**
	
	Adjustable-Rate Mortgage (ARM) Qualifying Calculation:
	Fully Amortized
	5/6: Qualify at the higher Fully indexed rate (index plus margin) or Initial Rate plus 2%
	7/6 and 10/6: Qualify at the higher Fully Indexed rate (index plus margin) **or** Initial Note Rate

Credit Scores, Credit and Disputes	Only the following credit report companies are eligible on this program: **Credco, Equifax, and Factual Data Enterprise Credit where the Report ID starts with "72"**
	
	For pricing, the lowest middle score is used for pricing for all borrowers.
	
	Rescoring and Credit Repair
	• JMAC prohibits the use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness
	
	All credit reports pulled by broker or seller within 180 days needs to provide.
	
	The borrower whose credit score was used for the Loan Score must have a minimum of three tradelines on the credit report. A valid credit score does not mean the borrower's credit is sufficient. The credit risk of the entire borrower profile must be evaluated to determine if the credit history supports the borrower's ability and willingness to repay the loan.
	
	Example of an acceptable credit depth:
	• Each borrower must have minimum of 3 tradelines (open/closed):
	  o 1 active trade line in the most recent 12-months with minimum balance of around $5,000.
	  o Two tradelines seasoned for at least 24-month history.
	  o Each borrower should have at least 2 credit scores.
	
	Authorized accounts:
	• It is acceptable to consider an authorized user tradeline in the underwriting decision if either of the following apply:
	  o Another borrower on the loan is the owner of the tradeline
	  o If the owner of the tradeline is not another borrower on the loan, documentation is provided (such as canceled checks or payment receipts) that shows the borrower has solely made the monthly payment on the account for a minimum of 12 months prior to the date of application.
	• An authorized user tradeline must be considered in the underwriting decision if either of the following apply:
	  o Documentation of the borrower's payment history on the authorized user tradeline is provided, particularly any late payments.
	  o The borrower is an authorized user of an account that belongs to the borrower's spouse who is circumstances.
	• Authorized user tradelines must not be considered in the underwriting decision in any other circumstances.
	
	• Frozen credit not allowed
	• Non-traditional credit not allowed
	• Mortgage late: 0x30 last 12 months, no rolling
	• Chapter 7 or 13 Bankruptcies: 7 years seasoning from discharge or dismissal of bankruptcy filings
	• Short Sale, Foreclosure, Deed in Lieu, Pre-foreclosure: Requires 7 years seasoning from date of completion
	Continue on next page

	• Charge-Off – an account reporting as a charge-off indicates the credit grantor wrote the account off as a loss and it is closed to future charges. Loans to borrower with any single charge-off from a financial institution are ineligible if the charge-off is: ○ A mortgage charge-off, as reported on the credit report, within the last two (2) years. ○ A non-mortgage charge-off, medical will be acceptable if the total aggregates does not exceed $1,000. The medical charge-off will need to be paid off. For all non-medical items, the total aggregates cannot exceed $500 else the loan **is ineligible**. Note: The two-year calculation is based on the date of the credit report is completed and date the charge-off was last reported. • Disputed Accounts: • Zero balance and no derogatory information – no action required • Zero balance and derogatory information - remove and pull new credit report • A positive balance and no derogatory information – remove and pull new credit report • A positive balance and derogatory information – remove and pull new credit report • A credit supplement is not allowed to document disputed accounts. • A copy of the borrower(s) dispute letter to the credit bureau and supporting documents is required in all circumstances (both removal and allowed to stay). There is no expiration date. • Borrowers with a bankruptcy, foreclosure, deed-in-lieu, short sale, repossession, forbearance non-CARES Act, and loan modifications requires 84 months of reestablished credit since the discharged, dismissal or completion date. • Forbearance Loans to borrowers currently in forbearance on any mortgage payments, as of the date printed on the Note, are ineligible. This includes subject and non-subject property mortgages as well as cosigned mortgages. Loans to borrowers who have exited forbearance on a mortgage that **is current** are eligible for purchase with documentation that the: • Borrower exited forbearance. • Mortgage is not in a repayment plan or loss mitigation program and is current as of the date printed on the Note. Current is defined as the prior month's payment(s) made no later than the last business day of the month prior to the date printed on the Note. ***Continue on next page***

	Loans to borrowers who have exited forbearance on a mortgage that **is not current** (the borrower missed mortgage payments during the forbearance period), are eligible for purchase with documentation that the: • Borrower exited forbearance. • Missed payments were resolved through one of the following: ○ Borrower reinstated the mortgage by making all missed payments prior to the date printed on the Note. ○ If reinstatement occurs after the application date, the source of funds must be documented. ○ New Loan proceeds cannot be used for reinstatement. ○ Borrower made at least three consecutive timely payments under or completed a loss mitigation program prior to the date printed on the Note. ○ Payments or completion may occur during origination. ○ Loan proceeds may be used to pay off the remaining payments of a repayment plan, deferral amount, or a modified mortgage.

Collections, Judgment, Tax Liens	Collections, delinquent taxes, judgments, judgment liens, and tax liens must be: • Included in the overall evaluation of the credit • Reviewed for possible impacts to the borrower's ability to repay the Loan or impacts to title • Explained in a letter provided by the borrower • Satisfied or paid off according to the requirements in the table below Delinquent taxes from the IRS, state, county, or city, including installment agreements to repay delinquent taxes, are treated as collection accounts or tax liens. • If a lien has not been filed, follow collection account requirements below. • If a lien has been filed, follow judgment, judgement lien or tax lien requirements below

Collections, delinquent taxes, judgments, judgment liens and tax liens

Accounts	Dollar Amount per Occurrence	Payoff Required	Included in DTI
Collection	<= $500	No[1]	No
Collection	>$500	Yes[2]	Not applicable
Judgment, judgment lien or tax lien	Any	Yes[3]	Not applicable

1 Accounts are not allowed to be paid down to $500 or less to avoid payoff
2 Collection accounts > $500 must be paid off unless the borrower can provide documentation proving the collection account is not the borrower's
3 Judgments, judgment liens, and tax liens must be paid off prior to or at Closing with the borrower's own funds. Proceeds from the subject transaction must not be used to pay off a judgment, judgment lien, or tax lien

Housing Payment History	A housing payment history (mortgage, rental, or combination of the two) covering a minimum of 24 months with no late payments must be verified either by the credit report or by direct verification. • At least one borrower must have a housing payment history (mortgage, rental or combination of the two) covering a minimum of 24 months with no late payments. • If less than 24 months or no housing payment history (mortgage or rental) is available, the Loan is ineligible. • If there is no housing payment history in the most recent 12 months, but a prior history is verified, it is acceptable to meet the housing payment history requirement. ***Continue on next page***

- If the property is owned free and clear, and the mortgage was paid off, or the property was purchased for cash:
    - Less than 24 months ago, a partial mortgage payment history showing no late payments must be provided.
    - More than 24 months ago, no mortgage payment history is required. The tax and insurance payments on the property constitutes an acceptable housing payment history if there is no evidence of delinquency.

A professional management company or an individual landlord must verify rental housing payments.

- If renting from a professional management company, provide one of the following:
    - Verification of rent or reference on a credit report
    - Most recent 24 months cancelled checks or bank statements showing timely payments
- If an individual landlord provides a reference, either by a verification of rent or on a credit report, the borrower must also provide evidence of timely payment for the most recent 24 months with one of the following:
    - Cancelled checks
    - Bank statements showing the payment
    - Money order receipts
    - Cash receipts
        - Cash receipts are not allowed if the landlord:
            - Is a relative of the borrower, or
            - Has an established relationship, prior to the Loan transaction, with the borrower beyond their connection as renter and landlord (examples include, but are not limited to, co-workers, close personal friends, partner, business associate, realtor, etc.)
        - If using cash receipts, the name, address, and telephone number of the individual receiving the payments must be provided.
- An individual landlord reference, either by a verification of rent or on a credit report, is not required if the borrower provides evidence of timely payment for the most recent 24 months with one of the following:
    - Cancelled checks or bank statements showing the payment

Seasoning Rate/Term and Cash Out	**REFINANCE OF LOANS WITH LESS THAN ONE YEAR SEASONING** The underwriter must analyze transactions involving the payoff of a first lien that has been seasoned for less than one year. Seasoning is calculated from the Note date of the previous loan to the initial loan application date. If the first lien being paid off was a purchase transaction, the LTV/CLTV must be determined as follows: • For properties with no home improvements completed, <u>use the lower of</u>: ○ Original documented purchase price ○ New appraised value • For properties with home improvements completed, <u>use the lower of</u>: ○ Original documented purchase price plus documented home improvements ○ New appraised value Home improvements must have been completed since the lien was originated, construction costs must be documented (paid receipts, cancelled checks, construction contracts, etc.), and the improvements must be supported by the current valuation. Home improvements may not equate to a dollar-for-dollar increase in value, and contributory value should be considered. **Rate & Term Refinances:** A rate/term refinance is a new first lien that replaces the borrower's existing financing on a property. The purpose of any simultaneous secondary financing must not impact the rate/term classification of the new first lien. The new first lien amount for a rate/term refinance may not exceed the sum of: • Payoff of the existing first Mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new Loan) • Payoff (as defined above) or pay down of any home equity line of credit (HELOC) (in any lien position) or subordinate mortgage loan, used in its entirety to acquire the subject property. Any remaining balance or lien must be subordinated to the new Loan. ○ The Closing Disclosure from the borrower's purchase of the subject property must be provided evidencing the proceeds were used in their entirety to acquire the subject property. • Standard Loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes and insurance, etc. and points). • Incidental cash to the borrower not to exceed 1% of the principal balance of the new Loan amount **<u>Cash-out refinances:</u>** • Any refinance transaction not meeting the requirements for a rate/term refinance is a cash-out refinance. • The outstanding balance on installment and mortgage debt is not allowed to be paid down to 10 or few monthly payments to qualify – whether using cash-out Loan proceeds or the borrower's own funds. • Payoff of any non-mortgage debt (e.g. revolving, installment) debt to qualify with cash-out loan proceeds is not allowed. • Consolidating second liens that was not used for purchase of the home is considered cash-out. • The maximum cash-out limit is $1Million for all transactions • Cash-out for purpose of buying Cryptocurrency or other related virtual currency is not eligible.

<table>
<tr><td>Delayed Financing</td><td>
If borrowers have purchased a property for cash within the preceding 90 days, reimbursement of the borrower's cash investment is allowed subject to all of the following:

Closing Disclosure indicates cash purchase within 90 days prior to the application.
Underwrite the Loan based on purchase transaction guidelines including:
80% maximum LTV/CLTV
Maximum DTI
Minimum Loan Score
The LTV/CLTV is based on the lesser of the original purchase price or current appraised value.
Borrower has exhibited a historic level of assets to support the cash purchase supported by Schedule B of the last two years' tax returns or other supporting documentation to verify receipt of such funds.
A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction.
Funds used for the original purchase must not be borrowed, except by means of a fully secured loan (for example, margin account or other real estate).
The Loan must be Registered and Closed as a cash-out refinance since the borrower is already in title to the property

</td></tr>
<tr><td>Property and Appraisal Requirements</td><td>
The number of appraisal products is determined by the total loan amount.
<table>
<tr><th>Total loan amount on the subject property</th><th>Appraisal Documentation Required[1]</th></tr>
<tr><td>Up to $3.0M</td><td>One full appraisal[2] certified appraiser</td></tr>
<tr><td></td><td></td></tr>
<tr><td colspan="2">[1] A second-level review, exterior field review, or interior field review may be required by investor, based on identified collateral or valuation risks.
[2] A full appraisal must be prepared on Form 1004/70, Form 1025/72, or Form 1073.</td></tr>
</table>
Additional Requirements:

LTV/CLTV is determined as follows:
If more than one full appraisal is obtained, the LTV/CLTV is based on the lower of the appraised values or the sales price.
If an interior field review is obtained, the LTV/CLTV is based on the lower of the field review value or the sales price.
Any interior field review if required will be at the cost of the loan originator or borrower. The actual order will be place by the investor.
Age of appraisal is good for 120 days.
Appraisal transfer not allowed

Correspondent clients are required to order AMC from the following approved AMCs:
<table>
<tr><td>Clear Capital</td><td>ServiceLink</td></tr>
<tr><td>PCV Murcor</td><td>Solidifi</td></tr>
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Flip Transactions	Follow the more restrictive of standard FNMA or FHLMC Guidelines.
Acceptable Property Types	Maximum 10 Acres <u>Acceptable Property Types</u> • Single family detached or attached dwellings • Condominiums / PUDS • Modular home Permitted ADUs - must demonstrate that the improvements are typical for the market with at least one comparable with a similar accessory unit Unpermitted/Illegal ADU's- • must demonstrate that the improvements are typical for the market with at least **two** comparable with a similar accessory unit • Appraisal report is completed based on the property's current use • Hazard Insurance provider confirms the existence of the illegal unit will not jeopardize any future hazard insurance claims **<u>Unacceptable Property Types</u>** • Unwarrantable condos • Timeshare projects • Unimproved land • Mobile / manufactured housing • Condotels/Resort Condominiums • Hotel Condominium • Log, earth or dome homes • Hobby farms • Mixed-used live/work • ADU (accessory unit) on a 2-4 Unit

Reserves and additional reserve requirements for Multiple REOs owned	Reserves/PCL are measured in months of the total qualifying housing payments. To determine the principal and interest payment used to calculate required reserves:

- Use the greater of the initial note rate plus 2% or fully indexed rate (index plus margin rounded to the nearest 1/8 percent) for 5-year ARM loans
- Use the greater of the initial note rate or fully index rate (index plus margin rounded to the nearest 1/8 percent) for 7-year and 10-year ARM loans.
- Use the Note rate for the Fixed rate loans.

Primary Residence			
Loan amount/adjusted combined loan amount[1]	**SFR Detached/Attached, PUD, Condo**	**2 Unit**	**3- to 4-Unit**
Up to $1,000,000	12 months PITI[2]	12 months PITI[2]	N/A
>$1,000,000-$2,000,000	12 months PITI[2]	18 months PITI[2]	N/A
>$2,000,000-$3,000,000	24 months PITI[2]	N/A	N/A

[1] Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e. when subordinate financing is a line of credit, the outstanding balance is used).
[2] Cash assets or reserves/PCL requirements will vary based on other characteristics: refer to ALL Loans in this section for additional information.

Second Homes	
Up to $1,000,000	18 months PITI[2]
>$1,000,000-$2,000,000	24 months PITI[2]

[1] Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e. when subordinate financing is a line of credit, the outstanding balance is used).
[2] Cash assets or reserves/PCL requirements will vary based on other characteristics: Multiple Owned Properties, Departure Residence, Income Analysis, Capacity and Liabilities Analysis

Multiple REOs owned *(may require additional)*
A maximum of 5 financed properties are allowed which includes the subject property for owner occupied transaction. **This includes properties owned by the business where the borrower have 25% or more in ownership of the business**. The max properties owned is cap at 10.

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The guidelines below apply to the total number of one-to four-unit residential properties for all borrowers on the transaction, regardless of financing. Include all properties that any:

- Borrower personal owns
- Borrower's business owns, regardless of the type of business, if the borrower owns 25% or more of the business

Subject property occupancy	Number of properties owned regardless if they are financed or not	Reserve/post-closing liquidity (PCL) requirements
Primary Residence	**Less than or equal 4**	• If aggregate financing for all properties is <= $4M, standard reserve/PCL requirements apply. • If aggregate financing for all properties is > $4M, 36 months' PITI is required.
	Greater 4	The greater of the following applies: • Standard reserve/PCL requirements apply • Reserves/PCL >= 50% of the aggregate liens from all properties • Reserves/PCL >= 36 months PITI if aggregate financing for all properties exceeds $4M *(reserve base on subject property).*
Second Home	**Less than or equal 4**	• If aggregate financing for all properties is <= $4M, standard reserve/PCL requirements apply. • If aggregate financing for all properties is > $4M, 36 months PITI is required *(reserve base on subject property).*
	Greater 4	Ineligible

Liquid assets verified to meet the reserve (post-closing liquidity) requirements may be in the form of:

- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of publicly traded stocks, mutual funds, and government securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- Retirement funds valued as follows:
  - Tax deferred Tax deferred gross retirement must be reduced by 30% to account for tax consequences (less any outstanding loan balances) to determine the actual funds available for reserve requirements.
  - There must be an additional 10% reduction if an early withdrawal penalty exists.
  - 100% of Roth IRA (less outstanding loans) may be used toward the retirement portion of the reserve requirement.
- Retirement funds may be used as follows:
  - <u>Borrowers without penalty free access</u>: Retirement funds may be used to meet up to 50% of the minimum reserve requirements.
  - <u>Borrowers with penalty free access</u>: Retirement funds may be used to meet 100% of the minimum reserve requirement.

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- Tax advantage college saving plans (529 college saving plans) funds may be used to meet the retirement portion of the reserve requirement.
    - The borrower must be the custodian on the account.
    - The balance must be reduced by 10% to account for tax consequences for drawing the funds for noneducational purposes.
- Equity proceeds from the sale of a residence.
- RSU – must be vested and publicly traded stock.
- Stock Option grants:
    - Must be fully vested and not restricted (either by the company or IRS, such as being subject to Rule 144)
    - Must be from a publicly traded company listed on the NYSE, AMEX or NASDAQ
    - May be part of a qualified or non-qualified plan
    - Cannot be used as qualifying income.

      To calculate the value:
        - Subtract the strike price/optioned price (the price at which the employee was issued the stock) from the current stock price and multiply by the number of shares.
        - Discount the value by 40% (to account for taxes).

<u>Asset Documentation:</u>
- Provide all pages of the most recent and consecutive two months asset statements dated within 45 days of the 1003 and source large deposits.

Bonus income used for cash to close
A borrower's recent bonus is eligible to be used for down payment, closing costs and reserves/PCL when the impact to borrower's qualifying income is analyzed.

If the Underwriter determines that the borrower is unable to meet all financial obligations and living expenses until the next bonus payout, deduct the bonus income from qualifying income when it is used as cash to close. Considerations must include <u>all of the following</u>:
- How often is the bonus paid (i.e. quarterly, semi-annual, annual) and what is the date of the last bonus payout?
- What is the amount of the bonus used for cash to close?
- Are base income and liquid reserves sufficient to allow borrower to meet all obligations and living expenses until the next bonus is received?
- Are liquid reserves sufficient to ensure the borrower has the ability to repay obligations in a timely fashion and to support the borrower's overall income profile for acceptable risk?

Use of Business Funds – not allowed for down payment, closing, and reserve.

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	The following assets are ineligible for purposes of meeting the minimum reserve (- liquidity) requirement: • Gift funds • Borrowed funds • Stock in a closely held corporation • Proceeds from secured or unsecured loan • Proceeds from the sale of assets other than the sale of a residence. • Proceeds from a cash-out refinance transaction • Nontraditional currencies such as Bitcoin, digital assets, and other cryptocurrencies (including liquidated cryptocurrencies) for income, down payment, closing costs or reserves are ineligible.
Revolving Debts	Payoff of revolving accounts in order to qualify is NOT allowed.
Installment Accounts	Installment accounts are accounts that fully amortize or have a balloon payment at a predetermined date. The account balance cannot be increased during the term of the loan. Payments are made on a regular basis and may be fixed or adjustable. Whenever the installment debt's payment amount is not provided on the credit report then documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to: • Direct verification from the creditor. • Copy of the installment loan agreement. Installment debts with less than 10 monthly payments remaining may be excluded from the qualifying ratios but must be listed on the application. It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid in full at closing in order to exclude the debt from the borrower's qualifying ratios and must be from borrower own funds. Cannot use cash-out funds to exclude installment debts for qualification.
Re-Entering workforce	For borrowers who are reentering the workforce after an absence of six months or more, the following apply: • Income is eligible to be used to qualify if the borrower has been at the current employer for a minimum of six months and can document a two-year work history prior to an absence from employment using: ○ Traditional employment verifications and/or ○ Copies of IRS *Form W-2 Wage and Tax Statements* (W-2s) or pay stubs. • A move from dependence on public assistance to reliance on employment and earned income should be viewed as a positive factor. **Note:** One, but not the only example of an acceptable employment situation, includes individuals who took several years off from employment to raise children and then returned to the workforce.
Lease Payments	The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining
Retirement Loans	The payment will be considered an installment payment. (e.g. Loan against 401K), unless there are less than 10 monthly payments remaining.

Deferred Payments, Balloon Payments and Single Payments Notes (including Interest Only Payment Notes)	Some debts may have deferred payments or are in a period of forbearance. These debts must be included in the qualifying ratios if scheduled to begin or come due within 12 months of the mortgage Loan closing. Examples of installment debts with deferred payments include:
	• Debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer.
	
	Some deferred payments must be included in the qualifying ratios even if deferred 12 months or more. Examples include:
	• Deferred payments must be included if the amount of the debt or payment affects the borrower's ability to pay the mortgage after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing, (such a borrower with high ratios / no or low cash assets after closing with a sizable debt event that is just outside of the 12 month window for inclusion in ratios).
	
	• Balloon and single payment Notes must be considered in the underwriting analysis:
	  ○ If sufficient liquid assets (excluding assets used to meet reserve (post-closing liquidity)/down payment/closing costs requirements) can be verified to pay off Note, the Note does not need to be included in the ratios.
	  ○ If sufficient liquid assets cannot be verified, verify the term of the Note, and include a payment in the ratios based on amortization over remaining term of the Note.
	
	When the credit report does not include a payment on the debt, documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:
	• Direct verification from the creditor.
	• Copy of the installment loan agreement.
	• Student loan certification from the financial institution holding the loan.

Income Information	<u>Salaried Borrowers:</u> • Verification of employment or paystubs within 30 days, dated within 45 days of loan application and covering one month, and W-2's for the past two years. W2 earners are required to provide 2 years tax returns. • Bonus Income: Provide 2 years history of receipt and 2 years tax returns; provide probability of continued receipt; provide dollar amount of bonuses paid in the last 2 years; Need to use an average for the past 2 years. • Commission Income: Provide 2 years history and 2 years tax returns. <u>Self-Employed:</u> • W2's paystubs and 1099's. • If business returns are more than 4 months old, provide YTD Profit & Loss Statement and Balance Sheet for each business where borrower owns 25% or more of the company (P&L and Balance Sheet must be signed by third party such as CPA, bookkeeper, Controller or tax preparer) • Most recent two years personal tax returns • Most recent two years K-1's for all business. • Most recent 2 years business tax returns for each business where the borrower owns 25% or more of the company • Decline of income of 20% or more requires additional review for stability. **NOTE**: 4506C will be executed for the most current two years.

Student Loan Payments	For student loans that are deferred, in forbearance, or not reporting a payment on the credit report, one of the following is required:
	• Calculate a payment using one of the higher of the original high credit limit or current balance. Apply 1.15%.
	• Request documentation of the actual payment. Documentation options include, but are not limited to:
	  o Direct verification from the creditor
	  o A copy of the installment loan agreement
	
	For student loans that are reporting a payment on the credit report:
	• Compare the reported payment to 1.15% of the current balance and use the higher of the two payments.
	• If using the 1.15% calculated payment for qualifying and the DTI exceeds the maximum, the actual payment amount must be documented.
	  o Documentation options include but are not limited to the following:
	    ▪ Direct verification from the creditor
	    ▪ Installment loan agreement
	  o The documentation must be reviewed to validate that the reported payment is reasonable.
	  o If the student loan is an income-based repayment plan, the documentation must be reviewed to validate the qualifying income on the loan application is consistent with the qualifying income used to assess the student loan payment.
	    ▪ If the student loan payment will be reassessed less than 12 months after the borrower started their most recent job, the 1.15% calculation must be used for qualifying unless rationale is documented for using the documented payment.
	    ▪ If the student loan payment will be reassessed more than 12 months after the borrower started the most recent job, use the documented payment for qualifying.

Recently graduated from School	• For borrower who recently graduated and does not have 2 years history of work is not eligible. **Schooling does not count as job history.** • The borrower must have 2 years history of work and must have 6 months on current job to give income if there are gaps in employment.

Declining income policy	If the self-employed, bonus, or commission income has declined more than 20%:
	• The lower income must be used in qualifying.
	• An average of income is not allowed unless both of the following apply:
	  o Decline is an isolated, onetime occurrence.
	  o The reason for one-time decline has been satisfactorily addressed and documented to support a strong expectation of no recurrence or further decline in income.
	
	If there have been declines over multiple years or further declines are possible, one of the following additional risk offsets is required:
	• DTI ratio at least 5% less than required
	• Housing ratio less than 36%
	• Reserve/post-closing liquidity (PCL) exceeds minimum required
	• Another equivalent offset as documented and supported by the underwriter
	
	Continue on next page

	Additional supporting documentation required: • For self-employed borrowers, the CPA must be contacted to provide documentation and support for income trends and continuance. • For borrowers with bonus or commission income, the employer must be contacted for income trends and continuance as well as verification the employee is still eligible and that programs are ongoing: ○ If the borrower is employed by a publicly held company, earnings reports are allowed to evidence favorable bus. trends
Income Requiring 5 years Continuance	**Continuance of income with a finite period of receipt** Income sources that have a finite period of receipt such as the income types listed below must have a **continuation period of at least five years**. The continuance requirement is reduced to three years if the income source contributes 25% or less of the qualifying income. The borrower's continued ability to repay the Loan must be considered when the income source expires or the distributions will deplete the asset prior to maturity of the Loan, including: • Replacement income such as Social Security income, deferred compensation, or trust income, that will begin before the income source expires • Strong equity position in other real estate or assets that may be liquidated in the future to provide an additional income stream • Strong financial experience evidenced by asset and credit profile Sale of the subject property cannot be the sole reason for approval or denial. Examples of income with a finite period of receipt include: Child Support / Mortgage differential / Alimony or separate maintenance payments Note Income / Royalty income / Social Security survivor benefits for children Trust Income / Public Assistance Income / Certain types of retirement income, such as annuities (excluding Social Security income) IRA/401K/Keogh Income / Relocation compensation / Social Security survivor benefits for children Effective income for borrowers planning to retire during the first three-year period of the Loan must include the applicable amount of: • Documented retirement benefit • Social Security payments • Other payments expected to be received in retirement

Examples table (from the cell above):

Child Support	Mortgage differential	Alimony or separate maintenance payments
Note Income	Royalty income	Social Security survivor benefits for children
Trust Income	Public Assistance Income	Certain types of retirement income, such as annuities (excluding Social Security income)
IRA/401K/Keogh Income	Relocation compensation	Social Security survivor benefits for children

Future Income	**Closing prior to start date with new employer** Loans are eligible to close prior to the start date with a new employer provided the following requirements are met: • One-unit primary residence. • Maximum 80% LTV/CLTV. • Purchase transaction. • Salaried borrowers. • Fully executed noncontingent employment contract or offer letter indicating salary and start date is required. The contract must be fully guaranteed and nonrevocable. • The time period between Closing date & commencement of employment must not exceed 60 days. • Post-close verbal VOE and pay stub not required. • Documentation evidencing all contingencies have been satisfied must be provided prior to Closing.
RSU Income	Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock is not the same as stock options. Restricted stock must be vested and received on a regular, recurring basis. Restricted stock tied to new employment and/or receipt of restricted stock income for <u>less than two years is ineligible</u>. The RSU must have the same vesting type such as "performance based" or "time base" for consecutive of 2 years with the same company. To document, obtain all of the following: • Vesting schedule (must contain grants received per year and when grants will vest) • Evidence that stock is publicly traded • Evidence of payout of the restricted stock (e.g., YTD pay stub and most recent two years' W-2s) When determining recurring income, the complexity of varying stock prices and vesting scenarios must be considered. Some examples include: • A single one-time large grant would impact prior year's income but is not likely to continue. If a significantly higher than one-time grant appears in certain years, it may be tied to a special project/milestone or promotion, which is not likely to continue. • If the stock price has increased substantially, the company may adjust the number of shares granted to align with overall cash amount. • Future income will be driven more by recent grants versus older grants that may have inflated income due to being granted when the stock price was much lower. • Recent significant drop in stock price. • Trading volume, giving special consideration to potential stock price volatility of smaller companies with lower trading volume. ***Continue on next page***

	The amount of restricted stock income relative to total income is not limited, however income continuance requirements must be met. The stock price influence on the income (past/present/future) must be considered when the restricted stock income makes up a considerable part of the total compensation. Some companies separate different levels of employee compensation with base pay, restricted stock, and bonus. For example, a company may pay a maximum base salary of $185,000, all other income differences are compensated through restricted stock and/or bonus. At midlevel and higher employment, restricted stock will make up the majority of the income and does not hinder the decision process when this is the compensation model chosen for that specific company.
	
	Calculation of income:
	• To determine the restricted stock price use the lower of:
	  ○ 70% of the current stock price
	  ○ Two-year stock price average
	• Qualifying income will be calculated using an average of the restricted stock income for the past two years, and YTD stock earnings. The average stock price is applied to the number of stock units vested each year.
	
	Future vesting must support qualifying income.

Rental Income	**Stability of rental income** The stability of the rental income **must be documented with two years of rental management experience** or rental income history with the most recent two years' complete individual federal tax returns. This can include any rental property. The two-year rental management experience and rental income history requirement for rental income from the subject property is not required if all of the follows apply: • Purchase transaction • 2-Unit property • Primary residence • Loan Score greater than or equal to 740 • No gift funds ***Continue on next page***

Eligible rental income

The following are acceptable sources of rental income:

- Rent received from investment properties or other units of an owner-occupied multifamily property that meet stability and continuance of income requirements.
- Rents received from a live-in aide, generated from a disabled borrower's one-unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the Loan.
    - Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in aide then makes rental payments to the borrower. This source of income is nontaxable and is not reported on the borrower's individual federal tax returns.
    - This income source is eligible as stable monthly income if both of the following is verified:
        - The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis.
        - The live-in aide plans to continue to reside with the borrower for the foreseeable future.

Ineligible rental income

The following are ineligible sources of rental income:

- Rent from boarders in a single-family property that is also the borrower's primary residence.
- Rent from a property that is the borrower's second home.

Non-subject investment property pending sale

If a non-subject investment property is pending sale, review the lease duration to consider offsetting the principal, interest, taxes, and insurance (PITI) payment.

Notes: Any additional income, above the PITI offset, from the non-subject investment property is not eligible as qualifying income.

Primary residence converting to investment property

Refer to Departing Property.

Determining qualifying rental income

Determine qualifying rental income using the following calculation with complete individual federal tax returns, including Schedule E, or other business returns.

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	Income is calculated as follows based on Investor Cash Flow Method: **Net Income** + Depreciation + Mortgage Interest + Real Estate taxes + Insurance + Homeowners association fees, if any (-) unallowed losses, if any + Loss carry-overs from previous years if any (-) Annualized PITI payment for rental property = Annual Operating Income Divide by 12 months **= Monthly Operating income** **Insurance requirements – subject property** Rent loss insurance is required for investment properties and two- to four-unit primary residences where the borrowers are relying on rents to qualify from the units they will not be occupying. The insurance must provide coverage for an amount equal to a minimum of six months of the rental income. **Monthly operating income** When using rental income to qualify from a two- to four-unit primary residence (subject or non-subject property): • The current monthly PITI payment on the borrower's primary residence must be included in the liabilities as the housing payment. • The monthly operating income is included in qualifying income. When the subject is an investment property: • If net cash flow is positive, include it in the qualifying income. • If net cash flow is negative, include it in the long-term debts. Aggregate all rental income or loss from non-subject properties: • Net rental income may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file. • Net rental loss must be considered a liability for qualification purposes.

	DOCUMENTATION REQUIREMENTS **Rental income not used to qualify** Documentation is not required when rental income is not used to qualify. The full PITI payment must be included into the DTI. **Rental income used to qualify** Rental income history for all residential or commercial rental properties, regardless of how long the property has been owned, must be verified by obtaining the most recent two eras complete individual federal tax returns, including Schedule E. *(i.e., the fair rental days should reflect 365 for each year).* Note: It is acceptable for the rent roll to be prepared by the borrower or a third party. Any indication of a gap in rental history/income greater than three months requires a written explanation from the borrower. **Lease agreements** When a lease agreement is required to determine qualifying income, a vacancy/maintenance expense factor of 25% is deducted from the rental income verified by the current lease agreement. If a lease agreement is used to support higher income, review the prior year's complete individual federal tax returns to determine if a vacancy/maintenance factor greater than 25% must be applied. **Property owned less than 12 months** When the property has been owned less than 12 months and is not reflected on the borrower's most recent complete individual federal tax returns: • It is acceptable to use present, signed leases if the borrower has a two-year history of property management experience as evidenced by the most recent two years' complete individual federal tax returns. • A vacancy/maintenance expense factor of 25% must be deducted from the rental income verified by the current lease agreement for determining qualifying income. For purchase transactions, an existing tenant's lease agreement maybe used when transferred as part of the sale of the property.
Departure Residence	**Existing primary residence is pending sale but will not be sold (closed) prior to the new transaction** Both the current and the proposed mortgage principal, interest, taxes, and insurance (PITI) payments must be used to qualify the borrower for the new transaction, unless all of the following are met: • Fully executed noncontingent sales contract is provided for the departure residence (cash sale of the departure residence is not allowed). • Standard reserve/post-closing liquidity (PCL) requirements plus an additional six months' PITI for the departure residence are verified. ***Continue to next page***

	If the departure residence will not be sold at the time of the new transaction's Closing and is in a negative equity position, additional reserves to cover the negative equity are required.
	
	Existing primary residence converting to second home
	If the existing primary residence will become a second home, both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction. Standard reserve/PCL requirements apply.
	
	Existing primary residence converting to investment property
	If the existing primary residence will become an investment property, 75% of rental income is eligible to be used to offset the departure residence mortgage PITI payment in qualifying when all the following are met:
	
	• 30% equity in the departure residence is verified.
	  • If the departure residence has a lien on the property, document the equity position in the departure residence with a full interior appraisal from an authorized appraisal management company (AMC) and rental Survey.
	    • Refer to the Appraisal Guides for authorized AMCs applies to Correspondent, and ordering requirements.
	    • The appraisal must be dated within 120 days of the date printed on the Note of the current transaction.
	  • If the departure residence is owned free and clear, no appraisal is required.
	• Rental income is documented with a fully executed 12-month lease agreement and must be arm's length.
	• Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.
	• Standard reserve/PCL requirements plus an additional six months' PITI for the departure residence are verified.
	
	If any of the requirements above are not met:
	
	• Rental income is not allowed to offset the mortgage PITI payment in qualifying.
	• Both the current and the proposed mortgage PITI payments must be included in the debt-to-income (DTI) ratio.
	• Standard reserve/PCL requirements apply.
	
	Notes:
	
	• Any additional income, above the PITI offset, from the departure residence is not eligible as qualifying income.
	• Two years of rental management experience is not required to offset the departure residence PITI payment.

Unacceptable Income	• Automobile allowance may not be used for qualifying and may not be used to offset a car payment • Gambling income • Nontraditional currencies as Bitcoin, digital assets or cryptocurrencies • Proceeds from reverse mortgage or other financing • Rent from boarder income or second home • VA education benefits
Solar	Investor to review all Solar documents if it's lease or PPA (Power Purchase Agreement) prior to clear to close.

HERO/PACE	HERO/PACE not allowed.
Rent Back	Rent back allowed up to 60 days
Seller Contributions	Seller contributions limited: • Owner Occupied > 80% CLTV: 3% • Owner Occupied <= 80% CLTV: 6% • Second Home <= 80% CLTV: 6%
Gift	• 100% gift allowed for Owner Occupied Transactions Only for LTC/CLTV <= 80% • Gift funds allowed on Second home after borrower's 10% contribution • US funds can be wire directly to escrow. • Gift funds from foreign accounts require 6 months' donor's ability. Any large deposits will need to be source and paper trail.

Condo Requirements	**NOTE: Investor to review and approved all condo projects**
	
	• In addition to the general condo requirements, the following applies:
	  ○ Maximum 80% LTV for established projects unless the project is located in Florida.
	    ▪ Projects located in Florida must be established projects and the maximum LTV/CLTV is the lesser of the product/program maximum or:
	      • 75% LTV/80% CLTV for a primary residence
	      • 70% LTV/75% CLTV for a second/vacation home
	      • 70% LTV/CLTV
	  ○ At least 50% of the units sold must be sold to owner-occupants for use as primary residence or second home.
	
	• Full HOA Cert form required
	• Evidence of HOA insurance policy covering hazard, liability, fidelity and flood (if applicable)
	• Master insurance policy to evidence all applicable insurance coverages including endorsements for inflation guard, ordinance or law, severability of interest, mechanical breakdown and validating adequate hazard, liability, fidelity and flood coverage prior to closing.
	• Homeowners Association Budget
	• Delinquent HOA Dues more than 15% of the project is ineligible.
	• Any adverse environmental factors affecting the condo project must be addressed by the appraiser. Projects with any factors affecting safety, habitability, or marketability are ineligible.
	• Project is 100% complete, including all units and common elements
	• Control of HOA has been turned over to the unit owners
	• Project is not subject to additional phasing or annexation
	• For multiple ownership
	  ○ Number units > 20: a maximum of 25% of the units are allowed to be owned by a single entity
	  ○ Number units 5 to 20: a single entity is allowed to own no more than two units
	• Additional documentation may be required depending on the status of the condominium and review type required.

Properties Listed for Sale	Refinances on properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing agreement canceled at least 6 months prior to the date the application. A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing services should be completed to verify that the property is not currently listed by a different agency. For R&T and Cash-Out transaction, need at least to be off the market for 6 months before taking application.
IRS Tax Lien	• Provide copy of the contract with the IRS • Payment must be included into the DTI. • Items that have become tax lien refer to tax lien section. (Must be paid – payment plan not acceptable)
Alimony and Child Support	• Alimony and separate maintenance payments must be deducted from income, not be included in monthly liabilities when the divorce decree or separation agreement is executed on or before December 31, 2018. • The following would be considered a liability when the borrower is required to pay alimony or separate maintenance payments and the divorce decree or separation agreement is dated after December 31, 2018. • Alimony or separate maintenance with less than 10 monthly payments remaining does not need to be deducted from income. • To document, obtain a copy of the court order (such as a divorce decree).
Secondary Financing	There are two types of subordinate financing: • Home Equity Line of Credit (HELOC): a mortgage loan that allows the borrower to obtain multiple advances from a line of credit at his/her discretion and that is typically in a subordinate position. • Closed End Loan: a mortgage providing a single advance of funds at the time of loan closing and that is not eligible for additional draws. **Terms** New and existing closed-end and home equity line of credit (HELOC) subordinate financing is permitted when the loan terms meet the following guidelines: • The subordinate financing must be recorded and clearly subordinate to JMAC Funding's first mortgage. • The maximum LTV/CLTV may not exceed the guideline limits for the product and occupancy type • Negative amortization is not allowed: scheduled payments must be sufficient to cover at least the interest due. • If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s) ◦ For all HELOCs, regardless of the line amount when calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits **Accounts** for methods of calculating a payment. • For Closed End Loans: Balloon payments are not allowed. ◦ The terms of a HELOC may provide for a balloon or call option within the first five years after the Note date of the first Mortgage. • For new Closed End subordinate financing: Maturity date or amortization basis of the junior lien must not be less than five years after the Note date of the first lien Mortgage, unless the junior lien is fully amortizing • For Closed End Second mortgages with interest only feature, refer **Total Debt Ratio.** • Equity share or shared appreciation mortgages are not allowed. • Subordinate financing from the borrower's employer that includes a provision requiring repayment upon termination is not allowed. ***Continue on next page***

	• Subordinate financing from the property seller (seller carry-back, including any property seller or other private party carried financing.) • Is allowed only after the borrower has made a 5% minimum down payment/cash investment • Is allowed only when the maximum CLTV* meets the published CLTV limits for the product/program • Seller contribution is based on CLTV • Should be at market rate. If the interest rate is more than 2% below Fannie Mae's posted net yield in effect for second mortgages at time of Closing, it must be treated as a sales concession and a dollar for dollar reduction made to the sales price. *For Non-Conforming Loans, the CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit, rather than the amount of the HELOC in use, must be used. • If an existing HELOC is not in the repayment period and is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV ratio. • If an existing HELOC is in the repayment period, the current balance is used to calculate the CLTV ratio. A copy of the line agreement is required to verify the customer can no longer draw on the account. **Acceptable Documentation** The terms of any subordinate financing must be verified. The following sources of verification are acceptable: • An existing subordinate lien that will be re-subordinated may be verified with any of the following: ◦ A copy of the credit report ◦ A copy of the mortgage note that will be re-subordinated ◦ A direct verification from the lender ◦ A copy of the loan/line statement • A new subordinate line that will be obtained at, or prior to, closing may be verified with any of the following: ◦ A copy of the mortgage note ◦ A direct verification from the lender ◦ A copy of the commitment letter from the lender ◦ A copy of the HUD-1 or final Closing Disclosure evidencing proceeds Unsecured loans from an employer must be included into the DTI. A copy of the promissory Note must be used to verity the terms of repayment. Home equity line of credit (HELOC): Full principal and interest payments are used for all mortgages, including HELOCs on other real estate held by the borrower. Refer to table below for methods of calculating HELOC payments. ***Continue on next page***

	Transaction	Qualifications
	• New HELOC on subject property, **OR** • Cash-out refinance first lien-all subordinated HELOCs on subject property	If there is a payment credit report, use: • Full Credit line limit • 20-year amortization term • Current prime rate +1.5 Margin +3.0 Qualifying Economic Adjuster **Or** obtain the Note and use: • Full Credit line limit • 20-year amortization term • Fully Indexed rate (prime + margin) from the Note +3.0 Qualifying economic adjuster If the credit report does not include a payment and the Note is not obtained, use the higher of the following: • Full credit line limit • 20-year amortization term • Current prime rate +1.5 margin +3.0 qualifying economic adjuster Or • .5% of the outstanding balance
	Rate/Term refinance - Existing HELOC on subject property	If there is a payment on the credit report, use: • Outstanding Balance • 20-year amortization term • Current prime rate + 1.5 margin + 3.0 qualifying economic adjuster **Or** obtain the Note and use: • Outstanding Balance • 20-year amortization term • Fully indexed rate (prime + margin) from the Note + 3.0 qualifying economic adjuster

		If the credit report does not include a payment and the Note is not obtained, use the higher of the following: • Outstanding balance • 20-year amortization term • Current prime rate + 1.5 margin + 3.0 qualifying economic adjuster
	Non-subject property HELOC	When the HELOC is aged less than or equal to 12 months (calculated from open date to note date) Obtain the Note and calculate the qualifying payment based on: • Full credit line limit • 20-year amortization term • Fully indexed rate (prime + margin) from the Note Do not include any rate/payment discounts that will not apply over the term of the line. If there is a payment on the credit report and a copy of the note is not available, use: • Full credit line limit • 20-year amortization term • Current prime rate + 1.50 margin + 3.0 qualifying economic adjuster Do not include any rate/payment discounts the will not apply over the term of the line. If the credit report does not include a payment and the Note is not obtained, use the higher of the following: • Outstanding balance or full credit line limit* • 20-year amortization term • Current prime rate +1.5 margin +3.0 qualifying economic adjuster OR • .5% of the outstanding balance or full credit line limit* ****If the borrower has sufficient liquid assets to pay off the full credit line limit amount in addition to standard policy requirements for post-closing reserves, the qualifying payment calculation may be based on outstanding balance rather than the full credit line limit.***

		When the HELOC is aged more than 12 months (calculated from open date to note date) Obtain the Note and calculate the qualifying payment based on: • Outstanding balance • 20-year amortization term • Fully indexed rate (prime + margin) from the Note If there is a payment on the credit report and copy of the Note is not available, use: • Outstanding balance • 20-year amortization term • Current prime rate + 1.50 margin + 3.0 qualifying economic adjuster If the credit report does not include a payment and the Note is not available, use: • Outstanding balance • 20-year amortization term • Current prime rate +1.50 margin +3.0 qualifying economic adjuster OR • .5% of the outstanding balance
	Non-subject property – other than HELOCS	The monthly payment used for qualifying is based on the fully amortized principal and interest, taxes, insurance, and home-owners association fees, if applicable on all real estate owned/held by the borrower. **Note**: This includes Loans that require less than a full principal and interest payment, including but not limited to interest only.
	Please Note: Prime rate can be found in the Wall Street Journal When the borrower is the credit account owner on an authorized user account, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio. ***Continue to next page***	

	When the borrower is the authorized user and the account is being used as a tradeline, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio. Certain **open-ended accounts** (such as American Express) require payment in full monthly. For such accounts, one of the following options may be used for qualifying: • If sufficient assets to pay off the full balance in addition to standard reserves/post-closing liquidity requirements are documented, no payment is required to be included in the total monthly obligations. • If sufficient assets are not available to pay for the full balance in addition to standard reserves/post-closing liquidity requirements, use the full balance for a qualifying payment. If a lower payment amount is documented from the creditor, use that amount for a qualifying payment.
Self-Employed Calculations	Self-employed borrowers must be self-employed for 2 years or more. Stable income is evaluated based on the average income calculated for the previous two years. When self-employed income is used, personal and business tax returns must be obtained and evaluated. If the P&L statements submitted for the current year show an income stream greater than what is supported by the previous year's tax returns, based the income analysis solely on the income verified through the tax returns. If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income. The Investor Cash Flow Method considers distributions that the borrower is taking from the business. It must be used to qualify the borrower, taking into account any supported adjustments made during income analysis. Calculations for various business classifications and tax return types are shown in the sections below. **Evaluating Schedule C** This is business income or loss for a sole proprietorship. Income is calculated as follows: **Investor Cash Flow Method** Net profit (-) Nonrecurring other income + Expenses for business use of home + Depletion + Depreciation (-) Meals and entertainment exclusion + Amortization/casualty loss

Evaluating Schedule D

Capital gains or losses that occur only one time, are not considered when determining effective income. If the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.

Three years' tax returns are required to evaluate an effective earning trend. If the trend:

- Results in a gain, it may be added as effective income
- Consistently shows a loss, it must be deducted from the total income

Anticipated continuation of income must be documented through verified assets.

Example:

Capital gain for an individual who purchases old houses, remodels them, and sells them for a profit.

When using income from capital gains, the underwriter must determine that the borrower's current asset portfolio is sufficient to support future capital gains. The underwriter must also consider whether an income-generating asset was sold during the year, as future business income may be reduced as a result of the sale.

Schedule F (Farm income or Loss)

The profit or loss from farming income is calculated as follows:

Investor Cash Flow Method
Net profit
(-) Nonrecurring other income
+ Depreciation
+ Amortization/casualty loss
+ Expenses for business use of home
+ Nontax portion ongoing co

Evaluating Corporate Tax Returns (IRS Form 1120)

The primary purpose for reviewing business tax returns is to analyze the financial strength of the business and to confirm that it will continue to generate the income the borrower needs to qualify for the requested Loan. When the individual tax return confirms sufficient borrower income and the business tax return indicates a viable company, the corporation need not be investigated any further.

Additional income

Qualifying income is determined by using a two-year average of income reported on W-2's. However, if the borrower needs (and has the legal right) to draw additional income from the corporation to qualify, further evaluation is required to verify the business is capable of contributing additional income. All of the following are required:

- Borrower has the legal right to withdraw income from the corporation, per corporate resolution or comparable document.
- Withdrawal of additional income will not impact the business operations, based on careful analysis of the corporate financial statements.
- Business has positive sales and earning trends.

Income is calculated as follows:

Investor Cash Flow Method
Officer's compensation (W-2) (-) unreimbursed employee expenses Borrower's share of: + dividends/distributions + loans to shareholders (-) additional paid capital (-) loans from shareholders A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners.

Note: The lowest income figure resulting from these calculations must be used to qualify.

Fiscal Year
Many corporations operate on a fiscal year that is different from a calendar year. In these cases, a time adjustment is required to relate the corporate income to the individual tax return because the individual returns is on a calendar year.

Individual percentage of ownership

- The borrower's percentage of ownership is determined from the Compensation of Officers section of the corporate tax return.
- If this information is not provided, other evidence of the borrower's ownership must be obtained. A statement by the corporation's accountant is satisfactory evidence.
- This percentage must be applied to the total of the above figures to determine the borrower's share of corporate after-tax income and non-cash expenses.

Evaluating S Corporation Tax Returns (IRS Form 1120s) And Schedule K-1

The gains or losses of an S corporation are passed on to the shareholders who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1120S) and transferred to Schedule E of the individual tax return.

The primary source of income for an owner of an S corporation comes from W-2 wages, which are traced to the Compensation of Officers line of the IRS Form 1120S and reported on IRS Form 1040. If the borrower needs (and has the legal right) to draw additional income from the corporation to qualify, further evaluation is necessary to verify the business is capable of contributing additional income. All of the following are required:

- Documentation of ownership and access to income
- Business had adequate liquidity to support the withdrawal of earnings
- Business has positive sales and earnings trends

If the requirements above are met, income is calculated as follows:

Cash Flow Method
Officer's compensation (W-2) (-) unreimbursed employee expenses Borrower's share of; + cash distributions + loans to shareholders (-) additional paid in capital (-) loans from shareholders A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners.

The Schedule K-1 (IRS Form 1120S) is used to determine the borrower's percentage of ownership.

Evaluating Partnership Tax Returns (IRS Form 1065) And Schedule K-1

Both general and limited partnerships use the IRS Form 1065 federal income tax return. The gains or losses of a partnership are passed on to the partners who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1065) and transferred to Schedule E of the individual tax return.

If the borrower is a general partner and needs (and has the legal right) to draw additional income from the partnership to qualify, further evaluation is required to verify the business can contribute additional income. All the following are required:

- Documentation of ownership and access to income
- Business has adequate liquidity to support the withdrawal of earnings
- Business has positive sales and earnings trends

If the requirements above are met, income is calculated as follows:

Investor Cash Flow Method
Officer's compensation (W-2) (-) unreimbursed employee expenses Borrower's share of; + guaranteed payments to partner (-) capital contributed during year + withdrawals and distributions + loans to partners - loans from partners A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners.

The Schedule K-1 (IRS Form 1065) is used to determine the borrower's percentage of ownership.

Re-Evaluation of business income

Once the additional business income has been credited to the borrower, the overall business financial position must be re-evaluated.

Recent withdrawals

Additional borrower withdrawals of cash may have a severe negative impact on the business and may lead to negative cash flow. When this occurs, it may not be possible to confirm the stable, ongoing income needed to approve the Loan.

The taxable income line must be reduced by the amount of the borrower's withdrawal.

To determine the impact on the business, income and expenses for the previous two years must be compared with year-to-date income and expenses. In addition, a current balance sheet must be reviewed to determine that the business has adequate funds to cover short-term liabilities.

Net distribution and net supporting calculation

The net distribution calculation represents the ongoing inflow to all owners. The net supporting calculation is used to support the likelihood of continuance of the borrower's qualifying income.

- When the total net supporting calculation is greater than total net distributions, the net distributions are supported. Use the borrower's portion of the net distributions for that year.
- When the net supporting calculation is less than total net distributions, the net distributions are not supported. Use the borrower's ownership percentage of the net supporting calculation for that year.

	Net Distribution Calculation	Net Supporting Calculation
Corporation **S-Corporation** **Partnership**	Total distributions (-) total capital contributions or additional paid in capital + / (-) partner or shareholder loan activity	Net income/loss (-) Nonrecurring other income + depreciation + depletion + amortization (-) meals and entertainment (-) mortgage, notes and bonds payable in less than 1 year when business does not have sufficient funds to cover the outstanding balance or it is not revolving or renewable.

Texas Homestead Properties	

Texas Homestead Properties

TEXAS HOMESTEAD PROPERTY

In addition to standard guidelines, the following guidelines apply to purchasing and refinancing of a primary residence in the state of Texas.

Texas Section 50(a)(6) transactions

Loans closed as a Texas Section 50(a)(6) transaction are ineligible for purchase.

Texas refinance Section 50(f)(2) transactions

A Texas Section 50(f)(2) is eligible for purchase and the following apply:

- The Texas Section 50(a)(6) lien being refinanced must be seasoned for at least 12 months. Seasoning is calculated from Note date to Note date.
- Maximum LTV/CLTV is 80%.
- The new Loan is not allowed to include the advance of any additional funds other than the amount necessary to pay off the Texas Section 50(a)(6) balance, other valid debt secured against the homestead property (if applicable), and actual closing costs required to refinance, and the borrower is not allowed to receive incidental cash back.

All Mortgages that constitute Texas Section 50(f)(2) under Texas law must comply with Texas provisions, regardless of whether lender classifies the Loan as a rate/term or cash-out.

TEXAS REFINANCE TRANSACTIONS		
Lien being paid off or down with new Mortgage	**Loan to be underwritten and price as**	**To ensure valid first lien, loan must be closed as**
Texas home improvement non-Texas Section 50(a)(6) lien, regardless of seasoning	Cash-Out	Rate/Term
Purchase money lien, regardless of seasoning	Rate/Term	Rate/Term
Texas Section 50(a)(6) lien, seasoned less than 12 months	Ineligible for purchase	N/A
Texas Section 50(a)(6) lien, seasoned at least 12 months that meets the Texas Section 50(f)(2) requirements	Rate/Term	Rate/Term
Federal Tax or Owelty Lien	Cash-Out	Rate/Term

Continue on next page

	Subordinate liens Transactions that include subordinate liens have the following restrictions: • Only one lien subject to Texas Section 50(a)(6) provisions is allowed to be secured by the subject property at any given time, regardless of lien position. • When the subordinate lien is subject to Texas Section 50(a)(6) provisions, the maximum LTV/ CLTV is the lesser of 80% or the maximum allowed by product or loan amount.
Income Verification	Full 4506C transcripts required on all loans for both W2s and Self-Employed Borrowers.
Restrictions	Temporary Buydown / Leasehold: Not Allowed
Non-Occupant Co-Borrower	Is allowed for purpose of assisting with reserve and closing requirements. Cannot use income from non-occupant to blend ratio for qualification purpose.
Principal Curtailment	Not allowed
Identity of Interest Transactions	The identity of interest transactions includes both non-arm's length and at-interest transactions. • Loans for second homes are not eligible. On a case-by-case basis, non-arm's length and identity of interest transactions may be considered if the borrower is purchasing the property as a primary residence. This loan will be considered non-delegated. • For newly constructed properties, the Loan is not an eligible transaction if the borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer, or seller of the property. • Flip transactions not eligible • Title changes from LLC or partnership to an individual is only allow as a non-delegated loan. • Transactions where the purchase contract has been assigned to the borrower are generally not acceptable but may be eligible for consideration provided there was no increase in sales price and the explanation for the assignment seems reasonable. If the earnest money is being transferred, it must be treated as a sales concession and deduct from the sales price. • Employer and employee sales - this is a transaction in which a builder or developer is selling to property to one of it's employees who does not hold a principle ownership interest. • Family Sales – this is a transaction where one family member is selling to another. Often there is no real estate agent involved or the agent may also be the family member. These transactions carry the potential for increased risk as they may be bailout situations. (e.g. the selling party has financial problems and is unable to refinance). Lender to insure seller have not been late in the past 12 months and it's not a bail out situations. ***Continue on next page***

	• Gift of Equity – gift equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. The donor must provide a gift letter. Documentations required: ○ Copy of the canceled earnest money check to verify payment of seller of any ○ Verification that the borrower is not now, nor has been in the previous 24 months, in title to the property ○ Payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be provided and show no pattern of delinquency within the past 12 months ○ Letter of explanation from the borrower stating the relationship to the seller and the reason for the purchase Borrower is allowed to represent themselves as the buyer's agent. Borrower is allowed to get paid the real estate commission they are owed. Commission cannot be use toward closing costs, down payment and reserves.
New Construction / Construction-to-Permanent Finance	**NEW CONSTRUCTION** New construction Loans involve the granting of a long-term mortgage to a borrower for the purchase of a newly constructed residence. To be considered new construction, the property must have never been occupied. **Notes:** · These are considered purchase transactions. · The borrower may or may not be the obligor of the construction financing. · The borrower may or may not be the owner of the lot on which the residence is constructed. Long-term financing to make a single disbursement to a builder or contractor or other party for the purchase of a completed property is considered a purchase transaction and subject to the guidelines for purchase transactions. **CONSTRUCTION-TO-PERMANENT FINANCING** Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing used for the construction of a new residence. JMAC does not participate in the interim financing. To be a construction-to-permanent transaction, one of the following conditions must be met: · The borrower is the primary obligor of the construction financing that is obtained through a legitimate financial institution. · The borrower is the owner of the lot on which the residence is constructed. ***Continue on next page***

	Rate/term refinance Construction-to-permanent rate/term refinance transactions are subject to the following: · The LTV/CLTV must be within the rate/term guidelines for the product and is based on the current appraised value for the property (both the lot and the improvements). · Acceptable uses of rate/term refinance proceeds include: o Pay off the interim construction financing secured by the property, including paying off a lot lien. o Pay closing costs and prepaids on the new Loan. o Pay off the remainder owed to the builder and/or subcontractors when the interim construction loan is insufficient to pay the amount contractually owed to the builder. o Incidental cash to the borrower not to exceed 1% of the principal balance of the new loan amount. **Note:** Borrowers recouping costs as part of a construction-to-permanent transaction is a cash-out refinance. See requirements below. **Cash-out refinance** Any construction-to-permanent transaction not meeting the requirements for a rate/term refinance is a cash-out refinance, and the Loan must be underwritten as a cash-out refinance. Borrowers recouping costs as part of a construction-to-permanent transaction is a cash-out refinance. **Borrower in construction industry** If the borrower is acting as his/her own builder (general contractor or sub-contractor) and his/her primary occupation is in the construction industry, the subject property must be an owner-occupied primary residence. **SINGLE-CLOSE CONSTRUCTION** Single-close construction-to-permanent financing offers borrowers a one-time closing by allowing a modification of the interim construction loan. JMAC does not purchase single-close construction-to-permanent Loans.

THE MARKET CLASSICATION RESTRICTED MARKETS AND METROPOLITAN STATISTICAL AREA MAP LIST ARE ON SEPARATE DOCUMENTS. BOTH DOCUMENTS CAN BE VIEW FROM THE JMAC PRODUCT RESOURCE WEBPAGE.