



ROCKSTONE

WHOLESALE · NON-QM · JUMBO · RTL

Underwriting Guidelines

NON-QM & DSCR

Effective 08/01/2026

ROCKSTONE WHOLESALE

444 W Lake Street, Suite 1700 · Chicago, IL 60606 · NMLS# 1619403

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INTRODUCTION

Rockstone Wholesale ("Rockstone") is a licensed mortgage lender. Our Corporate headquarters are located at 444 W Lake Street, Suite 1700 in Chicago, IL 60606.

The business we generate is primarily through relationships with lenders, brokers, real estate agents, and builders. We promote customer relationships and have elected to recruit and hire a team of mortgage professionals with existing relationships and are seeking to work for a company with a strong back-end support system and experienced operations and secondary market acumen.

FAIR LENDING STATEMENT

Rockstone believes making a loan to a borrower is more than just a business transaction. Rockstone wants to make loans that are good for the borrower as well as compliant with the housing industry laws and regulations.

Steps taken to ensure compliance with responsible lending practices include but are not limited to:

- Spot checks during Production which may occur at any time.
- Validation during the closing process regarding correct disclosures, LE, fees, etc. to comply with RESPA requirements.

HMDA reporting is completed as required and reviewed periodically throughout the year to ensure no negative or predatory trends are emerging.

RESPONSIBLE LENDING STATEMENT

The primary focus of our lending program is the borrower's ability to repay the mortgage obligation. Loans originated or purchased by ROCKSTONE should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, lenders must make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Lenders must verify information using third-party records that provide reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to comply:

- Current or 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.
- Current employment status (if you rely on employment income when assessing the consumer's ability to repay)
- Monthly mortgage payment for this loan.
- Monthly payment on any simultaneous loans secured by the same property.
- Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.
- Debts, alimony, and child support obligations
- Monthly debt-to-income ratio or residual income
- Credit history

Rockstone will not purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though Rockstone may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule. Rockstone, will only purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

ZERO TOLERANCE – FRAUD

All employees, independent contractors, brokers and lender partners of Rockstone are fully responsible for the content and quality of each application and all data on those applications taken and submitted to Rockstone.

The price paid by those who participate in or are impacted by loan fraud is even more costly, impacting borrowers, family members, neighborhoods, and the nation's overall economy. If a borrower cannot legitimately qualify for a loan or afford a particular property, it is a disservice to encourage or enable them to buy a property they cannot afford and may lose to foreclosure. Closing a loan for a borrower, without verifying they can afford it, is considered predatory lending.

Potential consequences that may be incurred by an employee or company found or suspected of being a participant in a fraudulent loan transaction include:

- Criminal prosecution including time in jail.
- Loss of License(s).
- Loss of lender access due to industry exchange of information between lenders, mortgage insurance companies including submission of information to investors (Fannie Mae/Freddie Mac), police agencies, and state licensing agencies.
- Loss of approval status and potential civil action by Rockstone.
- Civil action by applicant/borrower or other parties to the transaction.

Rockstone will not tolerate loan fraud. Rockstone stands behind the quality of its loan production and expects our lending partners and employees to do the same. Rockstone practices a zero-tolerance policy of any predatory lending, loan fraud and/or misrepresentation. We perform pre-funding , post-funding file reviews, and data integrity reverification to ensure the loan meets quality standards.

GUIDELINES AND PROGRAMS

GUIDELINES

These Rockstone Underwriting Guidelines ("the Guidelines") coupled with each of the Program Matrices for the Programs listed below ("Matrix or Matrices"), provide the comprehensive requirements for NQM Lending, LLC to close or purchase a loan.

Where these Guidelines are silent, defer to FNMA Guidelines.

NON-QM PROGRAMS

- **ALPHA**
 - The ALPHA Program is designed for the most qualified borrowers from an income and credit standpoint, with less complex transactions.
- **BETA (including Express - DU)**
 - The BETA Program is designed to cover the widest range of income documentation types, housing history, and other program specific options.
 - FNMA DU results must be Approve/Eligible or Approve/Ineligible with the Ineligible results for items such as loan size, LTV limits, loan purpose or feature. DU cannot be ineligible for a credit event or due to risk factors.
 - Extenuating circumstances for derogatory credit is not permitted.
 - Client negotiated variances with Fannie Mae are not permitted.
 - See Program Guide for full details.
- **OMEGA (Super Jumbo)**
 - The OMEGA (Super Jumbo) Program is a specialty program for high-net-worth borrowers with solid and stable income and credit, as well as considerable assets to cover down payment, closing costs and reserves.
 - Credit Committee approval is required for all transactions.
- **ITIN**
 - The ITIN Program is designed specifically for the ITIN borrower (including DACA) to provide financing solutions for this specific group of borrowers.
- **ZETA (Foreign National)**
 - The ZETA (Foreign National) Program is designed to cover a range of income documentation types, and other program specific options for the ZETA (Foreign National) Borrower.
 - ZETA (Foreign National)s are eligible for DSCR (excluding Multi 5-8 Units) under the ZETA (Foreign National) Program.
 - For Multi 5-8 Unit properties, see the GAMMA (DSCR Multi) (5-8 Unit) Program.
- **Sigma (Second Lien)**
 - The Sigma (Second Lien) Program is designed to cover a range of options for the borrower who desires a closed end second lien loan.

DSCR PROGRAMS

- **DELTA PRIME (DSCR)**
 - The DELTA PRIME (DSCR) Program is designed for the most qualified borrowers from a credit standpoint, with less complex transactions.
- **DELTA (DSCR)**
 - The DELTA (DSCR) Program is designed to cover the widest range of options available to the DSCR investor.
- **DELTA (DSCR) No-Ratio**
 - The DELTA (DSCR) No Ratio Program is designed to offer certain DSCR options when the rental income is not sufficient to cover the cover the monthly payments. This

- program allows investors additional options .
- GAMMA (DSCR Multi) (Residential 5-8 Units)
 - The GAMMA (DSCR Multi) (5-8 Unit) Program is designed specifically for the investors who want to use DSCR income for a 5-8 multi-unit property.

GENERAL UNDERWRITING REQUIREMENTS

AGE OF LOAN DOCUMENTATION

Credit reports must be dated within 120 days of the note date.
Income and Asset Documentation must be dated within 90 days of the note date.

ALTERNATIVE LOAN PROGRAM ANALYSIS

Loan applications are to be reviewed for approval under a traditional conventional conforming or FHA loan Program available to the Client. The *Rockstone Alternative Program Analysis Form*, or something similar, must be provided to ensure borrowers are proceeding under the appropriate loan Program.

The following loans are exempt from this requirement:

- Business Purpose Loans
- ZETA (Foreign National) Loans
- Loans qualified using Alternative Documentation

DAILY SIMPLE INTEREST

Loans where interest is calculated based on daily simple interest are not eligible on any of our Programs.

GEOGRAPHIC RESTRICTIONS

DC	• Investment Properties are ineligible, including DSCR.
FL	• ZETA (Foreign National)s, ITINs, and Non-Permanent Resident Aliens from the Peoples Republic of China are ineligible. • Charlotte, Lee, Hendry, and Glades Counties: Investment Properties are ineligible, including DSCR.
HI	• Permitted for Delegated Correspondents only. Ineligible for Non-Delegated Correspondent and Wholesale.
IL	• Cook County: all occupancies are ineligible. • Kane, Peoria and Will Counties: Ineligible for TRID loans – Restriction does not apply to Correspondents.
IN	• Indianapolis: Investment Properties are ineligible, including DSCR.
MD	• Baltimore City: all occupancies are ineligible.
MS	• Closed end second liens ineligible.
NJ	• TRID Loans not eligible for 2nd Liens in wholesale/retail. • Patterson: Investment Properties are ineligible, including DSCR.
NY	• Effective July 29, 2025, ROCKSTONE has temporarily halted wholesale originations for all TRID loans in the state of New York. Please note that correspondent loans (delegated and non-delegated) and business purpose loans remain unaffected. • All originations are restricted as follows: ○ Brooklyn: Investment Properties require a field review*. Transferred Appraisals not permitted in Wholesale.

	- Orange County: all occupancies are ineligible. - No 5/6 ARMs on Investment Property loans below the FNMA loan limit. - See NY Subprime section for requirements. - Short Term Rentals (STRs) are ineligible in the five (5) New York City Boroughs (Manhattan, Brooklyn, The Bronx, Queens and Staten Island).
PA	- Effective 12/16/25: - All lending in Zip Codes 19121 and 19132 is suspended. - DSCR Row Homes in Philadelphia are not permitted. - Effective 6/30/26: - All lending in Zip Codes 19122, 19123, 19125, 19130, 19133, 19140 is suspended. - Row Homes in Philadelphia, regardless of program, are not permitted.
TN	Memphis, TN: Appraisal Transfers not permitted in Wholesale. Field Review required*.
TX	- TRID Loans not eligible for 2nd Liens in wholesale/retail. - Lubbock: Investment Properties are ineligible, including DSCR. - Investment Properties for ZETA (Foreign National)s, ITINs, and Non-Permanent Resident Aliens from the following countries are ineligible: China, Russia, Iran, and North Korea.
*Correspondents must provide a field review from an AMC other than the one used for the Original Appraisal.	

- The following US commonwealth and territories are not eligible for purchase: Puerto Rico, Guam, and the US Virgin Islands.

ESCROW WAIVERS

Waiving escrows is permitted as follows:

- Non-HPML loans
- 0x30x12 housing/rental history
 - Note that borrowers who own their property free and clear or are living rent free are considered to meet the housing history requirements for escrow waivers.
- ALPHA and BETA: O/O and 2nd Homes permitted up to 80% LTV
 - CA: escrow waiver > 80% LTV up to 90% LTV is permitted with a Min 700 Score
- Investment Properties: 660 Min Score. Not permitted on No Ratio or GAMMA (DSCR Multi) (5-8 Unit) loans.
- Waiver not permitted on ITIN loans.

Flood Insurance:

- Flood Insurance premiums for properties located in zones A or V must be escrowed. It is permissible to waive taxes and insurance escrows in these instances provided the above requirements are met and the loan is priced with an escrow waiver.
- In addition, elective flood policies are not required to be escrowed.

EXCEPTIONS

Exceptions to published guidelines are considered on a case-by-case basis. Exception Requests must be submitted in writing using the Rockstone (ROCKSTONE) Exception Request Form and must include a minimum of two compensating factors.

It is in the sole discretion of ROCKSTONE to approve or deny any exception request. Approval of the exception does not guarantee final loan approval. The loan must still undergo a full underwriting review for final approval.

Credit committee may grant a maximum 5% LTV exception but never more than 5% above the related cohort (i.e., credit score, loan amount and LTV) as per the related Program Matrix.

Exceptions are not eligible for DELTA PRIME (DSCR), BETA – P&L Only, BETA Express (DU), OMEGA (Super Jumbo) and the Sigma (Second Lien) Programs.

Top Compensating Factors for Exception Consideration
• Significant Gross Disposable Income • DSCR Ratio Above 1.15% • Significant Reserves (beyond requirements) • DTI well below Program max • Lengthy & deep credit history of solid performance • Demonstrated capacity to carry a heavy debt load with on time performance • Credit score well above Program minimum with solid performance • LTV well below Program Max • Long, Clean Mortgage History • Significant time on the same job

MORTGAGE INSURANCE

Mortgage Insurance is not required on any of our Programs.

ROCKSTONE EXPOSURE

ROCKSTONE tracks exposure to individual borrowers, which includes entities and guarantors, by social security number or EIN number, and applies the following exposure limits:

- All Programs except DELTA (DSCR) – No Ratio, the limits are capped at the lesser of the amounts listed below.
 - Max \$10M or 10 loans in aggregate
 - Max \$5M or 5 any cash-out transaction & GAMMA (DSCR Multi) (5-8 Unit) Program loans.
- DELTA (DSCR) No Ratio:
 - Max \$ 7.5M or 10 loans in aggregate
 - Maximum \$5M or 5 cash-out transactions

COMPLIANCE

HIGHER PRICED MORTGAGE LOANS (HPML)

Higher Priced Mortgage Loans are permitted with certain restrictions:

- Escrow accounts are required.
- A Full Interior/Exterior Appraisal is required to include a certification from the appraiser indicating that the appraisal was prepared in accordance with the requirements of title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 ET SEQ.), and any implementing regulations.
- On a purchase transaction, a second appraisal is required if:
 - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
 - If the seller acquired the property within the past 91 to 180 days and the new

- purchase price is more than 20% of the seller's acquisition price.
- The second appraisal must be obtained prior to the note date.
- The second appraisal must be provided to the borrower (standard delivery requirements apply).
- The cost of the second appraisal may not be passed on to the borrower.
- *Note that the timelines are measured from the date the seller became the legal owner of the property and the date all parties signed the purchase agreement.*
- If the seller acquired the property through the following methods, a second appraisal is not required:
 - Bridge loans (for 12 months or less),
 - Reverse mortgages,
 - Loans for the initial construction of a dwelling – note that this is for a true construction loan, not for the end loan purchase of a newly constructed property,
 - A local, state, or federal government agency,
 - Through a foreclosure or deed in lieu, or
 - Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

STATE AND FEDERAL HIGH COST LOANS

Rockstone does not permit high cost mortgages. In addition, except for loans that comply with New York Subprime regulations, any loan that meets the definition of "high cost," "high risk," "covered," "subprime" or any similar designation under state or local law is not permitted.

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, Rockstone does not purchase or originate 1st Lien loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

NEW YORK SUBPRIME LOANS

NY Subprime loans will be eligible provided ALL the following requirements are met:

- Disclosures requirements:
 - Borrower's Choice of Attorney Disclosure
 - Consumer Caution and Homeownership Counseling Notice
 - NYSDFS List of Approved Housing Counselors (no signature required)
 - All the above must be delivered to the borrower prior to Closing.
 - Signature on the first two (2) documents will be required or if mailed out, evidence of mailing at least three (3) days prior to Closing.
 - Signatures/evidence of delivery must be for all borrowers on the loan.
- Mavent:
 - Loan must NOT fail the *High Cost (NY Part 41)* test. Rockstone does not allow NY High-Cost Loans.
 - Loans must NOT fail the *High Cost (NY)* test. Rockstone does not allow NY High-Cost Loans.
 - Note, these are two separate Mavent tests.
 - Higher Rate review is where the subprime designation will show up:
 - A "fail" is permitted for the Fixed Loan > 15 Year Term test (63900)
 - ALL other tests under the Higher-Rate Review must PASS for the loan to be eligible.

- Closing Documentation Requirements:
 - Must include a legend on the top of the mortgage in 12-point/font type stating, "This mortgage is a subprime home loan subject to New York's subprime home loan laws."
- Loan Program Requirements:
 - Fixed Rate
 - No PPP
 - Escrow impounds for taxes /insurance are required.
 - Refinance loans:
 - Must have a documented sufficient NTB, AND
 - Must not be a flip of a loan originated within 6 months, AND
 - May not pay off a special mortgage guaranteed through a state, tribal or local government, or nonprofit organization, which either bears a below-market interest rate at the time of origination, or has nonstandard payment terms beneficial to the borrower, and where, because of refinancing, the borrower will lose 1 or more of the special benefits.
- Correspondent Clients:
 - Must ensure the correct Disclosures are generated with their Disclosure Package. Fillable PDFs of the required NY Subprime Disclosure are posted on the Portal.

PREPAYMENT PENALTIES, POINTS, AND FEES

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. In addition, except for Investment Property transactions, points and fees may not exceed the lesser of state regulations or 5%, excluding prepayment penalties.

States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. As a matter of policy, Rockstone, does not purchase loans defined as high-cost mortgages (or equivalent terms) under Federal or state law, regardless of the basis for the loan's treatment as such.

- Prepayment penalties are required on Investment Property transactions where permitted by applicable local law.
- Correspondents may treat Investment Properties as Non-TRID however, an LLPA will be charged for not having a prepayment penalty as per the Rate Sheet.
- Buydown options are available to reduce or remove prepayment penalties. Refer to the appropriate Rockstone Rate Sheet for details.
- Prepayment penalties on Primary Residence and Second Home transactions are prohibited.
- Refer to the Business Purpose Licensing & PPP Restrictions PDF in the Documents Tab of our Client Portal for all state requirements.
- Refer to the respective rate sheet for minimum requirements for prepayment penalties.

PRINCIPAL CURTAILMENT

A curtailment may be applied to refund the overpayment of fees or charges paid by the borrower, in any amount.

If the borrower receives more cash back than is permitted for Cash Out Refinance refinances, a curtailment to reduce the amount of cash back to the borrower to bring the loan in compliance

may be applied however the maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount.

MAXIMUM INTEREST CREDIT

Rockstone allows an interest credit through the 5th of the month.

OCCUPANCY TYPES

PRIMARY RESIDENCE

A Primary Residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her principal residence. To qualify as a Primary Residence, the transaction must meet each of the following criteria:

- Borrower intends to occupy the subject property for the majority of the year.
- Property possesses physical characteristics that accommodate the borrower's family.

Property should be in the same general area as the borrower's employment. If not, additional documentation may be required at underwriter discretion to verify occupancy.

SECOND HOME

A Second Home is a dwelling occupied by the borrower in addition to their Primary Residence (may also be referred to as a vacation home). Second homes are restricted to a 1-unit dwelling.

Typical Second Homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's Primary Residence.
- Must be occupied by the borrower or members of the borrower's family for a portion of the year.
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

INVESTMENT PROPERTY & BUSINESS PURPOSE LOANS

An Investment Property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

A business purpose loan is an Investment Property where funds are used solely for business purposes and is considered a Non-TRID transaction. **The Property must not and cannot be occupied by a borrower, any member of the borrower's LLC, or any family member.**

- Retail / Wholesale
 - Investment properties and all DSCR loans must be Business Purpose and processed as non-TRID transactions.
- Correspondent
 - Loans may be processed as TRID or non-TRID transactions (Business Purpose Loans).

BUSINESS PURPOSE FORMS

- Business Purpose & Occupancy Affidavit is required on all Business Purpose loans. All borrowers are required to sign to declare that the property is, or will be, for commercial business or investment purpose only.
- Compliance Agreement – DSCR Loans or equivalent form, is required. Form is borrower(s) agreement to furnish the Lender and its successors and/or assigns with current copies of all Lease Agreements within a reasonable time upon request. This form will be executed at closing on retail and wholesale transactions and is to be provided at the time of purchase on correspondent loans.
- The Business Rider to the Mortgage/Deed of Trust must be executed at closing on retail and wholesale transactions.

TRANSACTION TYPES

PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

An assignment of the purchase contract is not permitted unless the individual assigning the contract is assigning the rights to an entity in which the individual has an ownership interest.

FOR SALE BY OWNER

- Not permitted on GAMMA (DSCR Multi) 5-8 unit transactions.

REFINANCE GENERAL

Rate & Term Refinance, cash-out refinance, and debt consolidation transactions are allowed.

Debt Consolidation available on BETA only. See [Debt Consolidation](#).

Second liens require 6 months ownership seasoning.

BENEFIT TO BORROWER

In keeping with the commitment of responsible lending, all Primary Residence and Second Home refinance transactions must have a measurable benefit to the borrower.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

CONTINUITY OF OBLIGATION – NO RATIO

Continuity of obligation is required on all no ratio refinance transactions, which occurs when at least one borrower(s) or member of the LLC on the existing mortgage is also a Borrower on the new refinance transaction.

When an existing mortgage will be satisfied because of the refinance transaction, the following requirements must be met:

- At least one borrower on the refinance mortgage held title for the most recent six (6) month period and the file contains documentation evidencing the borrower has been making timely mortgage payments, including the payments for any secondary financing, for the most recent six (6) month period
- At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises by a court in the case of divorce, separation, or dissolution of domestic property.

RATE & TERM REFINANCE

A Rate & Term Refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a Rate & Term Refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
 - For closed end seconds, the loan is at least six months seasoned as determined by the time between the note date of the subordinate lien and the note date of the new mortgage.
 - For HELOCs and other open-ended lines of credit, the loan is at least six months seasoned and there has been less than \$5,000 in total draws over the past 6 months.

If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a Rate & Term Refinance and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

On Rate & Term Refinance transactions, the borrower may only receive cash back in an amount not to exceed the lesser of 2% of the new mortgage balance or \$5,000. Borrowers may pay off debt through the transaction up to the Rate & Term Refinance limits.

DETERMINING LOAN TO VALUE

The appraised value is used to determine loan-to-value, regardless of the acquisition date. If the refinance is completed within six months of a prior refinance, there must be a minimum of 10% savings in payment to demonstrate sufficient benefit to the borrower.

PROPERTIES LISTED FOR SALE

- Primary Residence or Second Home rate and term refinance:
 - The subject property must be taken off the market on or before the application date. The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.

- Investment properties:
 - The property must be taken off the market prior to closing provided the new loan has a prepayment penalty.
- If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), the property must be taken off the market on or before the application date.
- On all occupancy types: if the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.
- On Stand Alone seconds, if the property was listed for sale in the last 6 months, the loan is ineligible.

CASH-OUT REFINANCE

While maintaining the property is an acceptable use for Cash Out Refinance proceeds, major renovations or rehabs, tear downs etc., on the subject property that could deem the property uninhabitable would render the property as ineligible.

ELIGIBILITY REQUIREMENTS

The following requirements apply to a Cash Out Refinance:

- A cash-out refinance is a refinance that does not meet the Rate & Term Refinance definition.
- A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.
- A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on Business Purpose loans.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in [Rate & Term Refinance](#)
- Paying off delinquent real estate taxes (60 or more days past due)
- The amount of any non-mortgage related debt paid off through closing (ineligible on business purpose loans)
- Additional cash in hand reflected on the settlement statement.

OWNERSHIP REQUIREMENTS

At least one borrower on the new loan must have been a titleholder on the subject property (not required to be a borrower) for at least six (6) months prior to the disbursement date of the new loan, unless one of the following exceptions apply:

- There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- See [Delayed Financing](#) section.
- If the property was owned prior to closing by a limited liability corporation (LLC), partnership), or corporation that is majority-owned or controlled by the borrower(s), the time held by the entity may be counted towards meeting the borrower's six-month ownership requirement.
- If the new transaction is for a Primary Residence or Second Home transaction, ownership must be transferred out of the entity's name at/prior to closing.

- 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.

SEASONING

- Note date is used to calculate seasoning requirements.
- A minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property unless otherwise specified in a product section or matrices.
- The most recent mortgage transaction includes either the most recent purchase of the property (including land only) or a subsequent refinance of the property.
- This requirement does not apply in the following situations:
 - Delayed Financing
 - When buying out a co-owner pursuant to a legal agreement
 - Title changes from a single member LLC to the borrower where the borrower owns the LLC.
- On second liens, provided the borrower has 6 months ownership seasoning, no further restrictions apply.

DETERMINING LOAN TO VALUE

- Properties owned ≥ 6 months to < 12 months, the appraised value may be utilized to determine property value (this does not apply to Condotels, or ZETA (Foreign National)s Loans).
- If the new appraised value is more than 120% of the acquisition cost, the appraisal should show signs of recent improvements justifying the increase in value.
- If the property was acquired ≤ 6 months, Cash Out Refinance is only eligible for Delayed Financing purposes.

Condotels and ZETA (Foreign National)s require the lesser of the current appraised value or previous purchase price plus documented improvements to be used when determining LTV on properties acquired in the most recent 12 months.

PROPERTIES LISTED FOR SALE

- Primary Residence or Second Home cash-out refinance:
 - The subject property must be taken off the market on or before the application date.
 - The borrower must also confirm in writing the reason for the prior listing and their intentions for the property.
- Investment properties:
 - The property must be taken off the market prior to closing provided the new loan has a prepayment penalty.
 - If the new loan does not have a prepayment penalty (including when a PPP is not permitted due to state laws), a Cash Out Refinance is ineligible. The loan must be completed as a rate and term refinance.
- On all occupancy types: if the property was listed for sale in the six (6) months prior to the application date, the value will be based on the lesser of the appraised value or the lowest listing price.
- On Stand Alone seconds, if the property was listed for sale in the last 6 months, the loan is ineligible.

DELAYED FINANCING

Cash Out on properties purchased by the borrower and owned less than 6 months is allowed. The

following requirements apply:

- Original transaction was an arm's-length transaction.
- Settlement statement from purchase confirms no mortgage financing used to acquire subject except for instances in which the borrower has obtained a short term and/or hard money type loan which is being paid through proceeds. A copy of the note is required to verify the terms.
- In Texas on an owner-occupied transaction, delayed financing is only eligible when the property was purchased entirely in cash; the payoff of a short term and/or hard money loan is ineligible.
- Source of funds used for purchase are documented, such as bank statements, personal loan documents, or a HELOC / loan on another property.
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured to another property), the settlement statement for the refinance transaction must reflect that all Cash Out Refinance proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property.
- Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new loan.
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.
- The appraised value will be used for LTV purposes, subject to any restrictions in the [properties listed for sale](#) section of the guide.

DEBT CONSOLIDATION

A debt consolidation refinance transaction involves the repayment of existing liens and additional consumer debt is considered a cash-out transaction.

Consumer debt being consolidated is paid directly through the closing and referenced on the Closing Statement. Transactions in Texas must comply with the requirements set forth in [Texas Home Equity Loans](#).

The following requirements apply to debt consolidation transactions:

- Primary Residences with full or alternative documentation
- Traditional full doc only for Second Home transactions
- DTI ≤ 50%
- Consumer debt must be no more than 0x60 in the past 6 months.
- Minimum 3-month reserves after closing (no additional reserves required for other loan features)
- Cash to the borrower must not exceed the lesser of 2% of the new mortgage balance or \$5,000.
- Non-mortgage debt being paid off with the new loan is limited to a maximum of \$250,000.
- Non-occupant co-borrowers are not allowed.
- Ineligible for Investment Properties.

Debt consolidation transactions must result in the following benefits to the borrower:

- Total monthly debt payments are lowered by at least 10%; and
- Closing costs must be recouped within 60 months, excluding taxes, insurance, prepaids and interest.
 - If the borrower is not saving 10% the loan must be treated as a cash-out refinance.

DETERMINING LOAN TO VALUE

For properties owned between (6) to (12) months, the appraised value may be utilized to determine property value with restrictions.

- The loan amount may not exceed 100% of the acquisition cost plus documented improvements, or
- The new appraised value may not exceed 120% of the acquisition cost.

If the property was acquired ≤ 6 months from application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

PROPERTIES LISTED FOR SALE

On a debt consolidation loan, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

If the property was listed for sale within six (6) months prior to the application date, the lesser of the lowest list price or the current appraised value will be used to determine loan-to-value.

ASSUMABILITY

Loans must not be assumable. This applies to all 1st and second lien loans regardless of loan Program.

2-1 TEMPORARY BUYDOWN

A 2-1 buydown is a mortgage loan option in which the seller of the home or the builder, reduces the homebuyer's interest rate for the first two years of the loan. In year one, the interest rate is 2% less than the original note rate. In year two, the interest rate is 1% less. The seller or builder covers the difference between what the payments typically would be and the adjusted, bought-down rate.

- Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown)
- Temporary Buydowns must be considered in the Interested Party Limitations. See [Interested Party Contributions](#) for limitations.
- Seller or Builder Funded buydowns permitted.
- Lender Paid or 3rd Party Buydown (Excluding Real Estate Agents, Brokerages, Borrower, or relatives) are permitted for Correspondent Clients only.

Other buydown requirements:

- Buydowns are considered a credit and must be disclosed on the LE/CD as such.
- Buydown must be disclosed in the sales contract.
- Loans must be locked indicating the buydown.
- An executed buydown agreement between the parties is required in the loan package.
- The Mortgage Instruments must reflect the permanent payment terms, not the terms of the buydown. If the terms of the buydown are reflected, the loan is ineligible for origination or purchase.
- All other terms and details (including Buydown Agreement) must follow [FNMA guidelines B2-1.4-.04](#).

FLIP TRANSACTIONS

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a "flip". To determine the 180-day

period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

New construction by a production builder is considered a flip transaction if the developer acquired the lot in the last 180 days and the purchase price has increased by more than 120%.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
 - Note, however, that For Sale by Owner transactions are not permitted on GAMMA (DSCR Multi) 5-8 Unit Transactions.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one (1) full interior/exterior appraisal and a Clear Capital Desk Review is required, unless the loan is an HPML Purchase Transaction in which case the below requirement applies.
- HPML Purchase Transactions:
- On a purchase transaction, a second appraisal is required if:
 - If the seller acquired the property within the past 90 days and the new purchase price is more than 10% of the seller's acquisition price OR
 - If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
 - The second appraisal must be obtained prior to the note date.
 - The second appraisal must be provided to the borrower (standard delivery requirements apply).
 - The cost of the second appraisal may not be passed along to the borrower.
- Timelines are measured from the date the seller became the legal owner of the property and the date all parties signed the purchase agreement.
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: <https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/>. If the seller acquired the property through the following methods, a second appraisal is not required:
 - Bridge loans (for 12 months or less),
 - Reverse mortgages,
 - A local, state, or federal government agency,
 - Through a foreclosure or deed in lieu, or
 - Inheritance or through a dissolution of marriage, civil union or domestic partnership, or through the partition of the seller's joint or marital assets.

NON-ARM'S LENGTH TRANSACTIONS

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan.

See [Employee Loans](#).

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales
- Renters purchasing from current landlord
- Buyer trading properties with the seller
- Property seller foreclosure bailouts (Builder bailout loans are ineligible.)
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.

Non-arm's length transactions are subject to all the following:

- Relationship must be fully disclosed.
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase.
- Letter is not required when borrower is purchasing the property they have been residing in, i.e., lease purchase or tenant-purchase situations.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Rockstone must be satisfied that the transaction makes sense.
- All liens on title are to be paid in full and reflected on the settlement statement.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.

The following additional requirements apply only to family sales:

- Verification that the borrower has not been in title to the property in the past 24 months.
- Payoff statement for the subject property may not show any signs that the transaction is a bailout.
- Gift of Equity is eligible on a Primary Residence only. See [Gift of Equity](#).

INHERITED PROPERTIES AND PROPERTY BUYOUTS

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
- Equity owners must be paid through settlement.
- Subject property has cleared probate, and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value.

LAND CONTRACT/CONTRACT FOR DEED

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered Rate & Term Refinance.

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

The following requirements apply:

- Primary Residence only when the land contract is unrecorded. Second homes and investment homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash Out and non-arm's length transactions not eligible
- If the Land Contract was recorded, it is not considered a Non-Arm's Length Transaction.
- If the Land Contract has been in effect for more than 12 months, the borrower will not be considered a First Time Homebuyer (FTHB).

LEASE WITH PURCHASE OPTION

Lease with purchase option (aka rent credit with option to purchase) transactions are allowed for Primary Residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See [Rent Credit for Lease with Purchase Option](#) for detailed requirements.

For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a First Time Homebuyer (FTHB).

PERMANENT FINANCING FOR NEW CONSTRUCTION

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

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

A construction-to-permanent transaction may be closed as a purchase, Rate & Term Refinance or cash-out refinance. All construction work must be complete. See [New Construction](#).

- Lots owned ≥ 12 months from application date for the subject transaction, LTV is based on the current appraised value.
- Lots owned < 12 months from application date for subject transaction, LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot).

SUBORDINATE FINANCING

Secondary or subordinate financing may be allowed to the maximum LTVs listed on the applicable matrices with the following requirements.

- Purchase and refinance transactions with a new simultaneous second lien are eligible when HCLTV does not exceed max LTV/HCLTV stated in the most restrictive of the 1st or second lien product matrices.
- Refinance transactions with existing second lien may be re-subordinated. The HCLTV may not exceed:
 - 90% on a Primary Residence and
 - 85% on a Second Home
 - 80% on an Investment Property ONLY when used in combination with the Sigma (Second Lien) Program. Subordinate Financing on any first lien where the subordinate lien is not a Sigma (Second Lien) will be ineligible for purchase.
- The second lien must be institutional. HELOC line limits may be paid down to meet HCLTV caps. Lines reduced or balances paid down must be fully documented including source of funds.
- Borrowers who currently have a second lien with an interest only payment, must be qualified with the fully amortizing payment.

If the subordinate financing is part of a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is for an existing lien being re-subordinated, the following is required:

- Evidence of the repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included in the borrower's DTI. If a payment is unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off as part of closing. See [Rate & Term Refinance](#) and [Cash Out Refinance](#) for more information.

SECOND LIEN

See Program Matrix for restrictions and requirements.

The Second Lien program is available with both stand alone and piggyback options.

- Purchase
 - Piggyback only available on a purchase

INELIGIBLE SENIOR LIEN CRITERIA

When the new loan is closing through the Sigma (Second Lien) Program, confirmation the senior lien does not include any of these ineligible criteria:

- Active forbearance or deferment
- Negative amortization
- Reverse Mortgage
- Balloon Loan where the balloon payment is due during the amortization period of the new second lien
- Private party mortgage
- Hard Money loans
- Mortgage not reported on the credit report unless the loan is serviced by an institutional servicer (ex. Shellpoint, Selene, SPS, SLS, Planet, Fay).

NEW YORK CEMAS

Consolidated Extension and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York.

Rockstone approved attorneys must be used to review and prepare CEMA documentation on wholesale and retail transactions. Please refer to the Rockstone Approved New York Attorney List in the Documents tab on the client Portal.

- Correspondents are responsible for utilizing attorneys with an expertise in reviewing and preparing CEMA documents.
- Lost Note Affidavits may not be used for any CEMA.

FOREIGN NOTARIES

Documents signed outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille.

- Use the following link to determine if the country is part of the Hague Convention:
<https://travel.state.gov/content/travel/en/International-Parental-Child-Abduction/abductions/hague-abduction-country-list.html>
- Model Apostille forms can be found on the following link:
<https://www.hcch.net/en/instruments/specialised-sections/apostille>

BORROWER ELIGIBILITY

U.S. CITIZENS

All U.S. citizens are eligible for financing.

PERMANENT RESIDENT ALIENS

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing. Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-551 – Permanent Resident Card (Green Card) that does not have an expiration date.
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired.
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions when the Green Card is expiring within 90 days of the two year conditional expiration date.
- Un-expired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

NON-PERMANENT RESIDENT ALIENS

A Non-Permanent Resident Alien is a non-U.S. Citizen authorized to live and work in the U.S. on a temporary basis. If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Borrowers must meet the following requirements (see ITIN section for additional qualification options):

- Borrower must have a valid Social Security Number
- Borrower must have either an Employment Authorization or VISA (as per below)
- Residency / Employment Requirements:
 - 2 years employment in the same line of work and 2 years of residency (in the U.S. or abroad); or
 - Borrowers transferred by a company with offices in both a foreign country and the U.S.:
 - Documentation of transfer executed on corporate letterhead required.
 - First paycheck required to be in file prior to closing.
 - Borrowers who have been offered and sponsored for employment in the U.S. under an H1-B or L-1 VISA:
 - Documentation of sponsorship required along with VISA.
 - First paycheck required to be in the file prior to closing.
- Borrowers from the following countries are restricted to Primary Residence transactions in Texas and must provide proof of lawful presence in the U.S (Texas Senate Bill 17).:
 - China, Russia, Iran, and North Korea

TEMPORARY PROTECTED STATUS

- If the TPS status of the country of origin has been vacated or shortened, the borrower is ineligible. Updates must be monitored through the following link to ensure Temporary Protected Status (TPS) associated with the borrower's country of origin is still in effect and has not been vacated: <https://www.uscis.gov/humanitarian/temporary-protected-status>

EMPLOYMENT AUTHORIZATION

The borrower's Employment Authorization must be documented by one of the following:

- Form I-766 Employment Authorization Document (EAD):
 - If the Borrower's Employment Authorization expires within three (3) months of the loan application, one of the following must be provided:
 - A letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship. The employer on the loan application must be the same as on the unexpired visa.
 - Evidence of at least one prior EAD renewal must be provided, along with evidence the borrower has filed Form I-765 prior to October 30, 2025. The EAD documentation is acceptable for up to 540 days if an automatic extension has been granted.
 - If Form I-765 was filed on or after October 30, 2025, the borrower is not eligible until the extension has been granted. Refer to the [Interim Final Rule](#) on the Removal of Automatic Extensions for more details.
- Form I-765 Application for Employment Authorization:
 - Must reflect approval status in the Action Block in the upper right corner of the form
 - Form I-797, I-797A, I-797B, or I-797C conveying approval status
 - Petitioner must match name on the application

Acceptable Documentation to Support the Borrower's Legal Status for borrowers granted Asylum:

- Form I-765 Employment Authorization referencing C08.
- After being granted asylum in the U.S., DHS issues Form I-94, an Arrival/Departure Record to asylees. Form I-94 will contain a stamp or notation, such as "asylum granted indefinitely" or the appropriate provision of the law (8CFR 274a.12(a)(5) or INA 208) to show their employment authorization.
- The asylee does not need to present a foreign passport with Form I-94.
- An Asylee can also present an electronic Form I-94 with an admission class of "AY."

VISA

- If an EAD is not provided, a copy of the Visa permitting employment authorization is to be provided.
 - Visa types allowed for all Programs (except DSCR No-Ratio):
 - A-1, A-2, E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, H1-B, NATO, L-1 O-1, R-1, TN
 - DSCR No Ratio: (U.S. Credit)- allow for the following Visa types:
 - E-1, E-2, E-3, EB-5, G-1 through G-5, H-1B, L-1, NATO, O-1, TN (NAFTA), R-1
- If the visa expires within three (3) months following the closing date, additional documentation is required:
 - Evidence that the proper extension steps have been followed per the USCIS along with proof of payment receipt and proof that the extension was done in the period required by USCIS (ex. I-797 with a valid extension date along with an I-94 Form).
- Visa Waiver:
 - Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at <https://travel.state.gov/content/travel/en/U.S.-visas/tourism-visit/visa-waiver-Program.html>.

ITIN

ITIN – DOCUMENTATION REQUIREMENTS

- Government photo ID from US or eligible country of origin. Examples include:
 - Government license, passport, matricular consular, etc.
 - A Visa is not required in addition to the above requirements for an ITIN.
- ITIN Card, Letter from the IRS, or Online Validation of ITIN:
 - ITIN is required to be assigned to the borrower prior to application
- All documentation in the file must support the borrower's ITIN number and cannot reference a complete Social Security Number belonging to another individual.
- Evidence of unexpired ITIN can be accomplished as follows:
 - Full Doc/1099 loans: Current executed transcripts will validate the borrower's current ITIN status.
 - Alt Doc loans: Provide one of the following:
 - IRS letter dated less than three years ago
 - Fully executed W7, including agent's signature
 - Letter from Tax Preparer confirming they have filed the borrower's most recent tax return with the IRS.
- Application with Country of O

ITIN - ELIGIBILITY

- ITIN is eligible with the ITIN Program only, or under the ZETA (Foreign National) Matrix when qualifying with a ZETA (Foreign National) Borrower. See related Program Matrix
- At least one borrower on the loan must be an ITIN or a DACA borrower
- ITIN must be valid and there must be at least 2 years consistent ITIN payments reporting to the IRS. This can be validated with the borrower's current ITIN # along with a 2-year employment history.
- Borrowers from the following countries are ineligible when the subject property is located in Texas (Texas Senate Bill 17).:
 - China, Russia, Iran, and North Korea
- Minimum loan size \$125,000
- Maximum DTI 50%
- Ineligible for Express (DU)
- Escrow impounds are required
- Not permitted to vest as follows:
 - Inter-Vivo Revocable Trust
 - Entity Vesting: LLC, Corporation or Partnership

DACA

DACA borrowers are eligible with ITIN / SSN with Valid U.S. driver's license along with EAD card (Category C33) evidencing their DACA status and permission to work in the United States.

- All DACA loans must be qualified under the ITIN Program.

ZETA (FOREIGN NATIONALS)

- If a non-U.S. Citizen is borrowing with a U.S. Citizen, ZETA (Foreign National) documentation requirements still apply.
- The following documentation is required:
 - Copy of the borrower's valid and unexpired passport and:
 - Copy of the borrower's unexpired visa OR an I-797 form (Notice of Action) with valid extension dates and I-94 Form (Arrival/Departure Record), or
 - Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa.
 - Participating countries can be found at <https://travel.state.gov/content/travel/en/U.S.-visas/tourism-visit/visa-waiver-program.html>
- Citizens of Canada traveling to the United States do not require a nonimmigrant visa. A list of nonimmigrant Visa types is located on the U.S. Department of State website:
 - <https://travel.state.gov/content/travel/en/U.S.-visas/visa-information-resources/all-visa-categories.html>
- All parties (Borrower's and Seller's) involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list:
 - <http://sdnsearch.ofac.treas.gov/>
- Borrowers from OFAC sanctioned countries are ineligible
 - Current OFAC sanctioned countries include Cuba, Iran, North Korea, Russia, Syria, and Venezuela. Seller is responsible for checking the OFAC list to ensure the most current sanctions are captured.
 - <http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx>
- Borrowers from the following countries are ineligible when the subject property is located in Texas (Texas Senate Bill 17):
 - China, Russia, Iran, and North Korea
- Individuals with Diplomatic immunity are not eligible. Immunity status is listed on the reverse side of the U.S. issued ID card or at: <https://2009-2017.state.gov/s/cpr/rls/dpl/index.htm>
- Documents signed outside of the United States must be notarized by a U.S. embassy or consular official.

ACH PAYMENTS

- Automatic Payment Authorization (ACH) Form is required for all ZETA (Foreign National) borrowers. Funds must be from a U.S. Bank.
 - The executed ACH enrollment for payment of Principal, Interest, Taxes and Insurance must be provided.
 - The ACH enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.
- To set up the Automatic Payment Authorization (ACH), a copy of the borrower's cancelled check to validate the bank's routing and account number and the executed ACH form are required prior to or no later than closing.

EXCLUSIONARY LIST/OFAC/DIPLOMATIC IMMUNITY

All parties involved in each transaction must be screened through any exclusionary list used by the seller and the ROCKSTONE Ineligible Party List located in the ROCKSTONE Portal. The seller should apply its exclusionary list policy to any loans originated under these guidelines.

Borrowers and Guarantors from OFAC sanctioned countries are ineligible for the ZETA (Foreign National) Program. The search is to be completed through the U.S. Department of Treasury Office of Foreign Asset Control: <https://ofac.treasury.gov/sanctions-programs-and-country-information> This does not apply to Permanent or Non-Permanent Resident Aliens

Individuals with diplomatic immunity are not eligible due to the inability to compel payment or seek judgment. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport, and/or the U.S. Department of State's Diplomatic List at: <http://www.state.gov/s/cpr/rls/>.

BORROWERS

- A borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage/deed of trust and note.
- If two or more individuals own the property jointly, and are jointly and severally liable for the note, all are borrowers.
- A maximum of four (4) borrowers/guarantors are permitted on any transaction.

CUSTOMER IDENTIFICATION (CIP)

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address, and identification number of all borrowers. Sellers are to follow the published CIP procedures for each seller to ensure the identity of all borrowers has been documented.

FRAUD REPORT AND BACKGROUND CHECK

All loans must include a third-party fraud detection report for all borrowers and/or guarantors. Report findings must cover standard areas of quality control including, but not limited to borrower validation, social security number verification, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the seller.

If the seller cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the seller is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller's underwriting staff or operations management personnel.

In addition to the fraud and background check requirements, Rockstone will provide evidence via an unsuccessful return if background check is not available. The fraud check should also include occupancy status to assist in the validation and endorsement of the Business Purpose & Occupancy Affidavit.

INELIGIBLE BORROWERS

The following borrowers are not eligible:

- Entities (may qualify for vesting only)
- Borrowers with diplomatic immunity or otherwise excluded from U.S. Jurisdiction
- Residents of any country not permitted to transact business with U.S. companies are ineligible (as determined by any U.S. government authority)
- Trusts or Land Trusts (Inter vivos revocable trusts may be eligible for vesting only)
- Individuals appearing on Exclusionary Lists such as ROCKSTONE Ineligible List, HUD's Limited Denial of Participation (LDP) list, or the General Services Administration (GSA) Excluded Party List.
- Borrowers less than 18 years old.

CO-BORROWERS / CO-SIGNERS

Co-borrower is often used to describe any borrower other than the first borrower whose name appears on the note.

All borrowers are evaluated on their ability to meet credit requirements and underwriting and eligibility standards.

- All co-borrowers must take title to the subject property on second homes and investment properties.
- A co-borrower may act as a co-signer on a primary residence and not take title to the property.
- A related Business Entity or Inter Vivos Revocable Trust may have an ownership interest in title to the subject property.
- Co-borrowers may not be an interested party to the transaction. Examples include, but are not limited to, property seller, builder, realtor, appraiser (a buyer who also acts as their own buying agent is eligible.)

NON-OCCUPANT CO-BORROWERS

A Non-Occupant Co-Borrower is eligible as follows:

- Primary occupancy only
- Purchase and Rate & Term Refinance only (non-occupant must be on the current mortgage for a Rate & Term Refinance refinance)
- See Program Guides for Maximum LTVs permitted
- Max 50% Total DTI
- Max 65% DTI for Occupying Borrower on manually underwritten loans only.
- When using Express (DU), ratios for the Occupant and Non-Occupant Co-Borrower may be blended and all income may be from the Non-Occupant Co-Borrower
- Maximum loan amount \$1,000,000
- The primary wage earner's score will be used to qualify, whether it is the Occupant or Non-Occupant Co-Borrower.

FIRST TIME HOMEBUYER (FTHB)

A First Time Homebuyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3 year period. If a spouse is on the deed of a principal residence in the last 3 years, they are not a First Time Homebuyer. If either borrower has had ownership interest, as defined above, the loan is not subject to the First Time Homebuyer (FTHB) restrictions.

See Program Matrices for restrictions.

FIRST TIME INVESTOR

The following restrictions apply across all DSCR products:

- Not permitted for First Time Homebuyers
- Minimum DSCR of 1
- Minimum FICO of 700
- No Exceptions permitted

On the GAMMA (DSCR Multi) (5-8 Unit) Product, the following first time investor restrictions apply:

- First time investors are eligible with a 0x30x24 housing history or when the Primary Residence is owned free and clear.

MAXIMUM FINANCED PROPERTIES (MAX FINANCED PROPERTIES)

- Max financed properties are capped at 20 for both DELTA PRIME (DSCR) and No Ratio
- Properties held in an LLC are included in the limitation

EMPLOYEE LOANS

Loans to employees of the Client are allowed. Transactions must meet the following requirements:

- Loan must be originated as Full Documentation **or as a DSCR**.
- Loans must adhere to non-arm's length transaction guidelines.
- Officers of the Seller are eligible on an exception basis only.

POWER OF ATTORNEY

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

- POA is specific to the transaction
- Signed and Notarized Recorded with the mortgage/deed of trust.
- Contains an expiration date.
- Used only to execute the final loan documents.
- Borrower who executed the POA signed the initial 1003.
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may function as Power of Attorney.
- POA is ineligible on Cash Out Refinance, ZETA (Foreign National), or when title is vested in a trust or an entity.

VESTING AND OWNERSHIP

VESTING REQUIREMENTS

Acceptable forms of vesting include:

- Individuals
- Joint Tenants
- Tenants in Common
 - Ineligible for condominiums
 - DSCR No Ratio Program: eligible only if all parties vested match the borrowers on the loan
- Inter Vivos Revocable Trust
- Investment Property Only:
 - Limited Liability Company (LLC)
 - Limited and General Partnerships
 - Corporations

- S Corporations

INELIGIBLE FORMS OF VESTING:

- Land Trusts
- Blind Trusts
- Life Estates
- Non-Profit Corporations
- IRA's
- Irrevocable Trust

INTER VIVOS REVOCABLE TRUST

Inter Vivos Revocable Trusts are allowed as vested or titled owners of the subject property (but not as borrowers). One or more natural persons must establish the trust, solely or jointly. The primary beneficiary of the trust must be the individual(s) who establish the trust. The trust must become effective during the lifetime of the person establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to apply and qualify for the mortgage. A Power of Attorney is ineligible on loans when title is vested in a trust.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to function as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust. One or more of the individual parties establishing the trust must use personal income or assets to apply and qualify for the mortgage.

A copy of the trust is required, or a signed attorney's opinion letter may be obtained in lieu of the trust documents. The attorney's opinion letter must indicate that the trust meets all published requirements and must also include the following:

- Name of the trust
- Date executed.
- Settler(s) of the trust
- Whether it is revocable or irrevocable
- Whether the trust has multiple trustees
- Name of trustees
- Manner in which vesting will be held.

The attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

The deed of trust/mortgage and all attached riders must be completed by the authorized trustee(s) of the trust that is the vested owner of the subject property.

Trust Certs are allowed when permitted by the state.

Closing Documents must be executed in compliance with FNMA signature requirements for Mortgages to Inter Vivos Trusts : <https://selling-guide.fanniemae.com/sel/e-2-04/signature-requirements-mortgages-inter-vivos-revocable-trusts>

ENTITY VESTING

Ownership or title vesting in the name of an LLC, partnership, or corporation (collectively 'Entity') is acceptable on Investment Property transactions only. While only individual owners of the Entity must qualify as the borrowers, ownership of the subject property may vest in an Entity.

REQUIREMENTS – ENTITY VESTING

To vest ownership in an Entity, the following requirements must be met:

- Entity is limited to a maximum of four owners or members.
- Personal Guaranties are required from all borrowers on the loan along with any individual with 50% or greater ownership in the entity. In the scenario where a property is owned 50%/50% by two members, but only one member is an authorized signer credit qualifying for the loan, the second member is not required to execute a guaranty.
- Borrower(s) must have the authority to execute loan documents on behalf of the entity.
- If the operating agreement does not state an authorized signer, then all entity owners must apply as a borrower and complete a 1003 as an individual applicant.
- The loan application, credit report, income, and assets for the borrower(s) will be used to determine qualification and pricing.
- Entity must be domiciled in the U.S.
- Layered Entities will be permitted as follows:
 - LLC documentation requirements must be met for each of the layered entities.
 - A maximum of two (2) layers will be considered.
 - Not permitted on No Ratio Loans.

DOCUMENTATION – ENTITY VESTING

The following Entity documentation must be provided:

- **Limited Liability Company (LLC)**
 - Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
 - Evidence of Certificate of Good Standing (not required if the entity was formed in the last 12 months.
 - Example: Certification of Good Standing or screen shot from the state website.
 - If all members are not borrowers, evidence the borrower has authority to sign on behalf of the entity, which can be validated through the Operating Agreement or Certificate of Authorization. If not available, a Borrowing Certificate is required.
 - Corporate documents that contain a list of owners along with titles
 - Tax Identification Number (EIN)
 - Single member LLC may use the EIN or the guarantor's social security number
 - Multiple member LLCs require an EIN
- **Corporation**
 - Filed Certificate/Articles of Incorporation (and all amendments)
 - By-Laws (and all amendments)
 - Evidence of Good Standing issued by the Secretary of State where the corporation is

- incorporated (**not required if the entity was formed within 120 days of the note date**).
 - Example: Certificate of Good Standing or screen shot from state website.
 - Tax Identification Number (EIN)
 - Borrower Resolution/Corporate Resolution granting authority of signer to enter a loan obligation.
- **Partnership**
 - Filed Partnership Certificate (if a general partnership, filing with the SOS may be required)
 - Partnership Agreement and all amendments.
 - Evidence of Good Standing issued by the Secretary of State where the partnership is registered (**not required if the entity was formed within 120 days of the note date**).
 - Example: Certificate of Good Standing or screen shot from state website).
 - Tax Identification Number (EIN) Limited partner consents (where required by partnership agreement).

SIGNATURE REQUIREMENTS – ENTITY VESTING

Documents must be completed and signed as follows:

- **Loan Application (1003)**
 - Completed and signed by each borrower as an individual.
- **Personal Guaranty**
 - Is not required when all members of the entity sign the Note personally AND for the entity and sign the mortgage as a member of the entity.
 - If the above is not true, then:
 - Personal Guaranty is required and must be executed by all borrowers.
 - The guaranty for any non-borrower with a 50% or greater ownership in the entity may be executed prior to closing, any terms referenced on the guaranty must reference the final terms on the loan.
 - In the scenario where a property is owned 50%/50% by two members, but only one member is an authorized signer credit qualifying for the loan, the second member is not required to execute a guaranty.
 - Personal guaranty must be signed in an individual capacity, not as a member/manager, etc. of the entity.
 - Spousal Consent to Pledge in community property states (AK, AZ, ID, LA, NM, TX, WA, WI).
- **Disclosures** (GFE/LE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each individual borrower.
- **CD or HUD 1** - completed and signed by the borrower(s).
- **Other Closing Documents** (Final TIL, Business Purpose and Occupancy Affidavit, etc.) - completed by the Borrower(s).
- **Note** - must be completed by the guarantor(s) in their capacity as the authorized signer for the entity when accompanied by a Personal Guaranty OR by all borrowers both individually and in their capacity as the authorized signers when a Personal Guaranty is not executed.
- **Deed of Trust/Mortgage, and all attached Riders** – must be completed by borrower(s) and executed in their capacity as the authorized signer for the entity.

Entity Signature Requirement Examples (Note, Deed of Trust/Mortgage and all attached Riders):

- [Authorized Signatory] may be replaced by a different title as specified in the Member

Consent (e.g., Managing member, Member, etc.).

- Example 1:
 - Borrower: SS Properties, LLC by Steve Smith, Single Member of LLC
 - Signature Block of Note, Security Instrument, and all Riders:
 - SS Properties, LLC a [_____] limited liability company
 - Steve Smith
 - By: Steve Smith
 - Title: [_____]
- Example 2:
 - Borrower: SS Properties, LLC by Steve Smith and Mary Smith, two Members of LLC; both Members are Authorized Signatories of LLC.
 - Signature Block of Note, Security Instrument, and all Riders:
 - SS Properties, LLC a [_____] limited liability company
 - Steve Smith
 - By: Steve Smith
 - Title: [_____]
 - And
 - SS Properties, LLC a [_____] limited liability company
 - Mary Smith
 - By: Mary Smith
 - Title: [_____]

LEASEHOLD ESTATES

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance.

- The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.
- The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.
- The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.
- Leasehold condominiums are ineligible.

LEASE REQUIREMENTS

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless fee simple title will vest at an earlier date in the borrower's name.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor.
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.

- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with:
 - the right to receive a minimum of 30 days' notice of any default by the borrower, and
 - the option to either cure the default or take over the borrower's rights under the lease.

ADDITIONAL ELIGIBILITY REQUIREMENTS

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid.
- The borrower must not be in default under any other provision of the lease, nor may the lessor have claimed such a default.

ESTABLISHING LAND PURCHASE PRICE

STATUS OF PROPERTY IMPROVEMENTS	PURCHASE PRICE OF LAND
Already Constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed	The purchase price of the land should be the lower of the following: • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For example, assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value is \$225,000, \$50,000 for land and \$175,000 for improvements, the purchase price would be \$50,000 (the current appraised value of the land, because it is less than 25% of \$225,000). <u>Note:</u> If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.

CREDIT

CREDIT REPORT

A tri-merge or Residential Mortgage Credit Report (RMCR) is required for all borrowers on a loan, with the exception of ZETA (Foreign National) Borrowers without US Credit.

The credit report should provide merged credit information from the 3 major national credit repositories. Acceptable credit reporting agencies include Experian, TransUnion, and Equifax.

A valid Social Security number (SSN) is required for all borrowers on the loan, with the exception of ITIN and ZETA (Foreign National) Borrowers.

The credit report should 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 individual has resided in the last 2 years.

FRAUD ALERTS

The three national credit repositories have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All Fraud Alerts must be properly addressed and resolved. The actions must be reasonable and compliant with applicable laws.

CREDIT REPORT SECURITY FREEZE

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved. If a borrower unfreezes his or her credit after the date the original credit report was ordered, a new three-bureau merged report will be obtained to reflect current and updated information from all repositories.

CREDIT INQUIRIES

A signed letter of explanation from the borrower is required for all inquiries within the most recent 90 days for debts not already shown on the credit report. If new credit was granted, documentation must be obtained to support the current balance and payment. The monthly payment must be included in the DTI. This is not required for DSCR transactions.

PAST DUE ACCOUNTS

Past due active consumer debts can be no more than 30 days past due at the time of closing.

Investor No Ratio: All derogatory revolving and installment accounts 60 days delinquent within 4 years of closing require a full explanation.

CREDIT RESCORING

Credit Rescoring:

- Eligible on Business Purpose loans only.
- Credit rescoring for all other loan transactions involving Primary Residence and Second Home occupancies are ineligible for the purpose of increasing the credit score to qualify, except to correct a reporting error as indicated in the permissible scenarios listed below.

Permissible scenarios for Primary Residence and Second Home transactions in which an updated credit report would be eligible (These rare instances must be acceptable at the sole discretion of the Underwriter based on the documentation provided):

- Borrower disputed erroneously reported account activity:
 - Mortgage, Installment, or Revolving account with current balance does not belong to the borrower(s)
 - Delinquent account does not belong to the borrower(s)
 - Borrower's account was paid off prior to making loan application; however, credit report shows a current balance and payment.
 - The creditor must acknowledge responsibility for the reporting error in writing (no exceptions); the reporting agency must correct the error; and borrower must provide evidence of the investigation and corrective action.
 - All credit reports pulled during the loan process must be in the loan file.
 - The credit report date has expired according to the Age of Documentation Policy.

GAP CREDIT REPORT

A credit refresh or undisclosed debt monitoring report dated within 30 days of closing is required, unless the original credit report is dated within 30 days from the Note Date. Evidence of undisclosed debt monitoring report is permitted to satisfy this requirement. DSCR loans are excluded from this requirement.

QUALIFYING CREDIT SCORE

See the ROCKSTONE Program Matrices for specific minimum credit score requirements by program.

REPRESENTATIVE SCORE

- Middle of three scores or lower of two scores is the representative score.
- In instances where only one score is permitted per Program Guides, that score is the representative score.

FULL AND ALT DOC

- The primary wage earner's score will be used for qualifying purposes.
- When qualifying income is equal for multiple borrowers on the loan, the highest representative score will be used.
- ALPHA, BETA, ITIN, ZETA (Foreign National), and Sigma (Second Lien) (Piggyback only):
 - When the primary wage earner has three scores, minimum trade lines are waived.
 - When the primary wage earner has less than three scores:
 - When 2 scores are obtained:
 - Standard Tradelines must be met, OR
 - For BETA Only, qualify using Limited Trades, OR

- ITIN or Non-Permanent Resident may qualify using Non-Traditional Credit
 - 1 score is only permitted for ITIN Borrowers when Standard Tradelines are met.
 - No score is permitted for ZETA (Foreign National)s.
 - No score is permitted for Non-Permanent Resident Aliens for BETA when the requirements detailed in the [Non-Permanent Residents with No Score](#) section are met.
- OMEGA (Super Jumbo) and Sigma (Second Lien) (Stand-alone): Standard Tradelines are required.

DSCR LOANS

- DELTA PRIME (DSCR), DELTA (DSCR) and Multi (5-8 Unit):
 - For Individual Borrowers, the highest representative score will be used for qualifying.
 - For Entity Vesting:
 - Use the representative score for the borrower with the highest percentage of ownership. For equal ownership, use the highest representative score.
 - Minimum 25% ownership for the member whose score is used for qualifying.
- No Ratio:
 - For Individual Borrowers, the lowest representative score will be used for qualifying.
 - For Entity Vesting:
 - Use the representative score for the borrower with the highest percentage of ownership. For equal ownership, use the lowest representative score.
- DELTA PRIME (DSCR), DELTA (DSCR) and GAMMA (DSCR Multi) (5-8 Unit):
 - When all borrowers have three scores, minimum tradelines are waived.
 - When borrowers have 2 scores, Standard Tradelines must be met.
 - If borrower has less than 2 scores, loan is not eligible unless the loan is a ZETA (Foreign National) qualifying with Non-Traditional Credit (not permitted on Multi 5+ Units).
- DSCR No Ratio and Sigma (Second Lien): Standard Tradelines are required.

TRADELINE REQUIREMENTS

STANDARD TRADELINES

When Standard Tradelines are required based on the Qualifying Credit Score details above, the following are required.

- 3 tradelines reporting for 12+ months with activity in the last 12 months, OR
- 2 tradelines reporting for 24+ months with activity in the last 12 months, OR
- 24 month mortgage history reporting on the credit report with a 0x30x12 history.
- Only the primary borrower must meet the tradeline requirements.
- Spouses may combine tradelines.

ELIGIBLE TRADELINES:

- The tradeline must be reflected on the borrower's credit report.
- The account must have been active in the past 12 months and may be opened or closed. A supplement may be used to update the account activity.
- Tradelines used to qualify may not exceed 0x60 in the most recent 12 months.
- An acceptable 12 or 24 month housing history not reporting on credit may be used as a tradeline.

INELIGIBLE TRADELINES:

- Credit lines on which the borrower is not obligated to make payments on.
- Deferred loans not requiring a payment.
- Authorized user accounts.
- Collections or charge-offs.

LIMITED TRADELINES

- BETA
- Primary Residence only
- 660 score, minimum 2 scores required
- Max LTV 80%
- Minimum 10% borrower own funds required
- Max DTI 43%
- 12 month 0x30 housing / rental history required
- There are no additional minimum tradelines that are required provided the above guidelines are met

NON-TRADITIONAL CREDIT

- Eligible for ITIN and Non-Permanent Residents as follows:
 - Minimum of 2 credit scores are required
 - Loan amount < = \$1,500,000
 - 3 Credit References covering the most recent 12 months from the date of the application, supported with canceled checks or bank statements.
 - Acceptable trades may be mortgage/rental verifications; utilities such as electricity, gas, water, telephone service, television, and internet providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of non-traditional credit.
 - It is permissible to combine trades from the credit report with non-traditional credit to meet the tradeline requirement.

NON-PERMANENT RESIDENTS WITH NO SCORE

- Non-Permanent Residents with no score are eligible as follows:
 - Borrower must have recently relocated to the US such that it would be logical for US credit to not yet be established.
 - Required Credit References:
 - 3 Trades for 12 months, OR
 - 2 Trades for 24 months.
 - One of the trades must be a housing history or the borrower must own their home free and clear.
 - Loan must be priced under the ZETA (Foreign National) Program.
 - Purchase Transactions only.
 - Maximum LTV of 75% on a Primary Residence or 70% on a Second Home. Investment Homes not permitted.
 - Maximum Loan Amount of \$1,500,000.

HOUSING HISTORY

All programs, with the exception of ZETA (Foreign National) loans qualifying without US Credit, require verification of the borrower's housing history. Housing history for the borrower's primary residence in a foreign country is not required to be documented.

Borrowers are considered to have a housing history under the following circumstances.

- Borrower(s) who own their Primary Residence free and clear.
- Borrowers living in the marital home.
- Borrower(s) who sold a Primary Residence within the past 12 months, are purchasing a new primary residence, and are currently residing rent free until subject transaction closes.

On DSCR loans, the borrower's Primary Residence should be supported by one of the following characteristics:

- A different geographic location from the subject property; or
- General appeal and location of the Primary Residence is superior to subject property.

See related Program Matrix for requirements.

MORTGAGE HISTORY VERIFICATION (NON – DSCR)

- Mortgage payments not reflected on the credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM) or follow the Private Party guidance below.
- A combined total of all late mortgage and rental payments for all properties in the past 12 months will be used to determine the housing history.
- Rolling delinquent payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.
- Properties held in the name of an LLC in which the borrower is personally obligated on the note must be included in the ratios and have the mortgage history documented.
- All mortgages and rental payments should be current at the time of closing.

If the borrower is making payments to a private party or interested party, one of the following is required:

- A VOM/VOR along with the consecutive most recent 6 months of canceled checks, bank statements, Venmo/Paypal documentation; or
- A copy of the note/lease along with the consecutive most recent 12 months of canceled checks, bank statements, or Venmo/Paypal documentation.

MORTGAGE HISTORY VERIFICATION (DSCR ONLY)

- Mortgage payments on the subject and Primary Residence not reflected on the original credit report must be documented via an institutional third-party (Verification of Rent or Verification of Mortgage (VOR/VOM)).
- An updated mortgage history reporting current as of the funding date of the new transaction is only required for the subject property and the Primary Residence.
- Any mortgage tradeline reporting on the credit report for properties owned by the borrower must be included when reviewing the housing history eligibility.
- Any non-subject or non-Primary Residence mortgages not reported to the credit report do not have to be documented.

If the borrower is making payments to an individual or interested party, one of the following is

required:

- A VOM/VOR along with the consecutive most recent 6 months of canceled checks, bank statements, Venmo/Paypal documentation; or
- A copy of the note/lease along with the consecutive most recent 12 months of canceled checks, bank statements, or Venmo/Paypal documentation.

BALLOON MORTGAGES WITH AN EXPIRED MATURITY

Balloon mortgages with an expired maturity date can be considered as follows:

- If the extension is executed prior to the balloon's maturity and any required payments since the extension were made as expected, this would be considered as a 0x30.
- If the extension was executed after the balloon's maturity but prior to closing, and the borrower continued to make timely monthly payments, this would be considered as a 0x30.
- If the extension was not executed, but the VOM indicates the loan is paid as agreed, the payoff does not include deferred payments or interest, and the maturity date of the balloon was within 180 days of the new note date, this would be considered as a 1x30.

In all instances, it is not permissible for deferred payments or interest to be rolled into the payoff.

RENTAL VERIFICATION

When the borrower is renting their current residence, a 12 month rental verification is required.

Rental history can be documented through one of the following methods:

- Verification of Rent (VOR) completed by a management company; or
- Verification of Rent (VOR) completed by a private party landlord along with the most recent 6 months proof of receipt of rental payments (PayPal, Venmo, Canceled Checks, etc.); or
- A copy of the lease along with the most recent 12 months proof of receipt of rental payments (PayPal, Venmo, Canceled Checks, etc.); or
- When qualifying under Select Express (DU), DU may waive the requirement for a rental history on certain casefiles. Even when DU waives this requirement, ROCKSTONE still requires documentation to support a 12 month housing history, however it is permissible to allow the waiver of cancelled checks for private party VORs when eligible per DU.

RENT FREE OR INCOMPLETE HOUSING HISTORY

For borrowers who are living rent free, a rent-free letter must be provided from the property owner. In addition, for borrowers living rent free or who have an incomplete 12 month housing history, the following applies.

- Non-DSCR 1st Lien Loans:
 - Borrowers must have a 10% minimum borrower contribution and are capped at an 80% LTV.
- DSCR 1st Lien Loans:
 - Refinance transactions:
 - Eligible provided the borrower has an established address supported by a rent-free letter from the property owner and there is no suggestion of occupancy in the subject property.
 - Purchase transactions:
 - Eligible when the subject property is in a different geographic area from the residence, or
 - The borrower is an experienced investor with existing REOs.
- Second Liens:
 - Rent Free is not permitted

Note that borrowers are not considered to be living rent free when they are living with their spouse in the marital home. In addition, when there are multiple borrowers on a loan, only one of the borrowers needs to have a housing history to not be considered rent free.

HOUSING EVENTS AND PRIOR BANKRUPTCY

A Housing Event is any one of the following events listed below:

- Foreclosure
- Deed-in-Lieu
- Short Sale
- Forbearance
- Modification
- 1x120 mortgage history
- Charged off second mortgage or junior lien

SEASONING (HOUSING EVENT / BANKRUPTCY)

See Program Matrices for seasoning requirements per program.

- Seasoning of a foreclosure is the date the Judge signed the court documents.
- Seasoning for a deed-in-lieu, or short sale is measured from the date of completed sale or final property transfer. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.
- For a 120-day mortgage late, seasoning is from the date the mortgage was brought current.
- Seasoning for a modification is from the date the modification was executed.
- Bankruptcies are considered housing events, inclusive of Chapter 7, Chapter 11 and Chapter 13.
- If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.
- For Chapter 13 Bankruptcy, the lookback period varies depending on if the bankruptcy was discharged or dismissed:
 - If the bankruptcy was discharged:
 - The filing date would be used for the lookback period.
 - The bankruptcy must be discharged.
 - For DSCR No Ratio, the BK must be discharged a minimum of 24 months prior to closing.
 - If the bankruptcy was dismissed:
 - The dismissal date is used for the lookback period.
 - For DSCR No Ratio, the BK must be dismissed a minimum of 24 months prior to closing.
- Charged off second or junior liens are subject to foreclosure seasoning periods, based on the date of the charge-off.
- Borrowers with unrelated multiple significant credit events are ineligible.
- Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.
- Restructured Mortgage loans that resulted in any type of partial forgiveness, principal curtailment, or conversion are ineligible.
- Housing events caused by a FEMA declared natural disaster does not count as a credit event instance.

A mortgage modification is considered any of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.

All borrowers must have reestablished acceptable credit verified after the credit event.

WRITTEN EXPLANATIONS FOR DEROGATORY CREDIT

Housing Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation. Explanation letters for medical collections, revolving late or collections are not required.

For DSCR No Ratio loans, all derogatory revolving and installment accounts 60 days delinquent within four years of closing require a full explanation.

LIABILITIES

INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full prior to or at closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. Installment debt may also be paid down to qualify.

REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the debt-to-income ratio calculation. A credit supplement can be obtained to verify what the minimum payment is if it is not reflected on the credit report.

Revolving accounts can be paid off prior to or at closing and do not need to be closed to exclude the monthly payment from the DTI. Supporting documentation, such as a credit supplement, direct verification from the creditor, or the CD can be used for verification the debt was paid off. See [Asset Documentation](#) for sourcing and seasoning requirements.

AUTHORIZED USER ACCOUNTS

Authorized user accounts should not be considered in the borrower's debt-to-income ratio.

BUSINESS DEBT

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio unless the below applies.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent 6 months canceled checks drawn against the business account; along with business financials reflecting the business expense; or
- Business bank statement showing assets remain after funds to close and reserve requirements are met with a balance greater than or equal to the balance of the debt.

If the debt is less than 3 months old, the payment must be included in the debt-to-income ratio unless it is a vehicle and there is evidence the previous vehicle was paid by the business.

CHILD SUPPORT, ALIMONY OR MAINTENANCE OBLIGATIONS

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten (10) months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

COLLECTIONS AND CHARGE-OFFS

Delinquent credit, such as charge-offs of non-mortgage accounts are to be considered as follows.

The following accounts may remain open (except DSCR No Ratio):

- Collections and charge-offs < 24 months old with a cumulative balance of \$5,000
- All medical collections
- Collections from factoring companies when the original debt can be verified on the credit report.

Collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs are included in DTI (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

DELTA (DSCR) No Ratio Program: non-title charge-offs and collections within three years and

exceeding \$5,000 (individually or aggregate) must be paid. Medical collections less than \$15,000 are not required to be paid.

CONSUMER CREDIT COUNSELING SERVICE (CCCS)

- Borrower enrollment in CCCS is allowed when a minimum of 12 months has elapsed on the plan and evidence of timely payments for the most recent 12 months is provided.
- The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.
- If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.
- If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.
- For DSCR Consumer Credit Counseling must be completed for a minimum of 24 months from the closing date.

COURT ORDERED ASSIGNMENT OF DEBT

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

The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. Any delinquency which occurred prior to the date of the assignment must be considered.

DEBTS PAID BY OTHERS

When a borrower is obligated on a non-mortgage debt but is not the party repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations as follows:

- There is evidence that the other party has been making the payments for the most recent 12 months', and
- There are no delinquencies in the most recent 12 months.

When a borrower is obligated on a mortgage debt but is not the party who is repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt, and
- There is evidence that the other party has been making the payments for the most recent 12 months', and
- There are no delinquencies in the most recent 12 months, and
- The borrower is not using rental income from the applicable property to qualify.

DEPARTURE RESIDENCE WITH NO CONTRACT IN PLACE

If the borrower's current principal residence will be sold but there is currently no contract in place, the debt may be excluded as follows:

- The property is currently listed for sale
- There is 30% equity in the primary residence documented through either an AVM with a 90% confidence rating, a 2055, or a full appraisal.
- The borrower has an additional 6 months reserves on the subject property, in addition to any program required reserves.

- Minimum FICO of 700.
- Maximum LTV of 80%
- New transaction is a primary purchase.

DEPARTURE RESIDENCE PENDING SALE

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

The current principal residence's PITIA is not required to be used in qualifying the borrower if the following documentation is provided:

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

DISPUTED ACCOUNTS

When the credit report contains tradelines disputed by the borrower:

- If the tradeline is paid as agreed, no further action is needed.
- If the disputed account has a zero balance or is being paid at closing, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is \$2,500 or less, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is over \$2,500, the credit file should be documented with a credit supplement showing the dispute has been resolved.

JUDGMENTS AND LIENS

Judgments and liens must be paid off at or prior to closing.

IRS TAX REPAYMENT PLANS

IRS Tax Repayment Plans are allowed with the following requirements:

- There must be no indication that a lien has been filed against the borrower for the debt.
- Debt may not be subordinated. Adverse credit that will impact title must be paid in full as title must ensure our lien position without exception.
- A copy of the approved repayment agreement is obtained.
- A minimum of 2 months have elapsed on the plan and evidence of timely payment for 2 months is provided. Payments cannot be prepaid.
- The maximum payment under the plan is included in the DTI.

LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required.

- The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed.
- The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

LEASE OBLIGATIONS

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

If a vehicle lease is paid off to qualify, evidence that the car was purchased is required. Paying off the remaining lease balance is not considered paying off the debt.

OPEN 30-DAY CHARGE ACCOUNTS

- For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be the required monthly payment.
- Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.
- If the borrower paid off the account balance prior to closing or at closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

RETIREMENT/SAVINGS PLAN LOANS

- Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset.
- The value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

STUDENT LOANS

- Student loan payments must be included regardless of deferment or repayment in the DTI. If a payment amount is not identified, 1% of the current loan balance may be used.
- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is \$0. The borrower may then qualify with a \$0 payment.

TIMESHARES

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

UNDISCLOSED DEBTS

- If personal asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt-to-income ratio.
- If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the account, a signed letter of explanation from the borrower is sufficient.
- If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

EMPLOYMENT

EMPLOYMENT HISTORY

Unless stated otherwise under the related Program, employment must be stable with at least a 2 year history in the same job or in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years.

FREQUENT JOB CHANGES

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

GAPS IN EMPLOYMENT

- Borrowers should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24.
- Recent graduates and borrowers re-entering the workforce after an extended period are allowed, assuming they have been back to work for 6 months.
- Illness and childbirth are not considered as gaps in employment.

WRITTEN VERIFICATION OF EMPLOYMENT (WVOE)

Income and employment for wage earners may be obtained via direct written verification from the borrower's employer (FNMA Form 1005).

- The verification should be signed by a member of the company's human resource department or one of the business owners or officers.
- At a minimum, the verification must include the borrower's name, position, dates of employment, and base salary.

VERBAL VERIFICATION OF EMPLOYMENT (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all the following criteria:

- Completed within 10 business days of closing.
- Confirm that the borrower is employed at time of verification.
- Include the name and phone number of the person processing the VVOE.
- Include the name, position and phone number of the person providing the verification (employer)
- The telephone number for the borrower's employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

When a VVOE is completed through a third-party vendor, because their databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the Note Date.

VERIFICATION OF SELF-EMPLOYMENT

- For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:
 - CPA/EA/PTIN/CTEC/Tax Attorney, regulatory agency, or applicable licensing bureau
 - Secretary of State listing reflecting current year registration
 - Verification of a phone and address listing using the Internet.

- In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e., consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.

FULL DOCUMENTATION

For all income sources, borrowers are qualified based on calculated stable monthly income. Income may be obtained from a variety of sources such as salary, bonus, commission, self-employment, etc., and should be reasonably expected to continue for the next 3 years.

WAGE EARNERS (FULL DOC – ALPHA, BETA AND OMEGA (SUPER JUMBO))

Income must be verified with the following:

- 30 days of paystubs, 1 or 2 years W-2 or an electronic verification of employment, W-2 transcripts when an electronic verification of employment is not provided, and a fully executed and signed IRS Form-4506C.
 - Pay stubs and W-2s should be typed or computer generated. They should provide the borrower's full name, address, employer name, year-to-date earnings, and rate of pay.
 - If pay stubs reflect garnishments (child support, IRS, etc.) or any loan deductions, additional information will be required to determine if a monthly payment should be included in the debt-to-income ratio calculation.

WAGE EARNERS (FULL DOC – ITIN)

Income must be verified with the following:

- Fully written verification of employment, signed IRS 4506C and 1 or 2 years Tax Transcripts.
- Providing documentation with a complete Social Security Number not belonging to the borrower will render the file ineligible for purchase.

WAGE EARNERS (FULL DOC – ZETA (FOREIGN NATIONALS))

Income must be verified with the following:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent)
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification).
- Any documents not in English or US Currency must be translated.

IRS 4506-C TAX TRANSCRIPTS (FULL DOC)

A signed IRS 4506-C must be completed and signed by all borrowers qualifying as full doc. The form must request the appropriate type of transcript based on the level of loan documentation (W-2s, tax transcripts, etc.).

One of the following is required:

- Wage earner's employment and income documented through a FNMA DU Validation

Electronic Verification of Employment vendor (i.e., Blend, Equifax, Experian, Finicity, Truework), OR

- Transcripts executed for 1 or 2 years, depending on the qualifying doc type.

In the event the most recent years transcripts are not available, one of the following is required:

- The prior 1 or 2 years tax transcripts, OR
- All the following:
 - The prior year's transcripts when qualifying as a two-year full documentation,
 - Copy of the e-filing certificate for the most recent year,
 - Proof the check cleared for any taxes due, or proof of receipt of the tax refund, and
 - Tax Transcript reflecting "No Record Found."
- The transcripts must be reviewed and compared to the qualifying income to confirm consistency. The results should be equal to or greater than the income used to qualify the loan. Any inconsistencies between the transcripts and the qualifying income should be addressed.

SELF-EMPLOYMENT INCOME (S/E FULL DOC)

- FNMA Liquidity Test is not required.
- A borrower is considered self-employed with 25% or more ownership interest in a business.

STABILITY AND CONTINUANCE OF SELF-EMPLOYMENT (S/E FULL DOC)

- Borrower's must be self-employed for the most recent consecutive two (2) full years in the same business.
- If the current self-employed business has been in existence for less than 2 years:
 - If the business has been in existence for 18+ months and the borrower has 3+ years' experience in the same line of work, loan may be qualified under BETA (see limitations below)
 - If the borrower is a licensed professional (i.e. Medical, Legal, Accounting) with less than 2 years business existence, but greater than 1 year and the borrower has at least 3 years of documented experience in the same profession, or evidence of formal education in the same field, loan may be qualified under BETA (see limitations below).
 - In both instances, the following restrictions apply:
 - Minimum credit score 700;
 - Max LTV: 80% Primary Residence, 75% Second Home; 70%; Investment Property
- It is considered acceptable when the self-employment business filing has changed (example: sole proprietorship to corporation), provided the business name and ownership percentage have remained the same and the business has been in existence for the most recent consecutive two (2) full years.
- Borrowers receiving 1099 income (filing as Schedule C or E) are eligible provided that the 1099 income is from the same source, covering the most recent two (2) full years.

DOCUMENTATION REQUIREMENTS (S/E FULL DOC – NON-ZETA (FOREIGN NATIONAL))

- Documents required include all of the following:
 - Tax returns (personal and business) for the most recent one or two years, including all schedules;
 - If the tax return date is more than 120 days from the Note Date, borrower signed and

- dated year-to-date profit and loss statement through the most recent month preceding the loan application;
- Signed and processed IRS form 4506-C for tax transcripts;
- Verification of the existence of the business within 30 business days of closing.
- If the borrower pays themselves a salary, one or two years of W2s should be provided.

QUALIFYING INCOME (S/E FULL DOC – NON-ZETA (FOREIGN NATIONAL))

- Qualifying income is determined from the Tax Returns, and the P&L is used to determine the stability of that income.
- When analyzing Tax Returns, the following may be added back to compute the qualifying income:
 - Depreciation
 - Depletion
 - Business use of the home
 - Amortization/casualty loss
 - Nonrecurring losses: note that nonrecurring income must be excluded
 - Net operating losses being carried forward from prior years

DOCUMENTATION REQUIREMENTS (S/E FULL DOC – ZETA (FOREIGN

- Borrowers who have been self-employed for at least 2 years are eligible.
- The following items must be obtained:
 - Letter from a CPA providing income for the last 2 years and year to date earnings.
 - A copy of the Accountant's current license is required.
 - Self-employed business and CPA are to be independently verified (via Lexis Nexis, D&B international business search, google, or other means of verification).
- Any documents not in English or US Currency must be translated.
- Verbal verification of employment is not required.

1099 INCOME (FULL DOC)

- Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's schedule C.
- Documents required for determining income are:
 - Tax returns for the most recent 1 or 2 years, including all schedules; and
 - 1 or 2 years 1099s, and
 - Written VOE or paystub confirming year to date income if more than 90 days since the most recent 1099,
 - Signed and processed IRS form 4506-C (1099 transcripts); and
 - Verification of the employment within 30 business days of closing.

SECONDARY BUSINESS INCOME

Secondary sources of income not needed to qualify are not required to be reviewed or documented.

However if a borrower is self-employed and qualifying using full documentation with tax returns, all information on the tax returns should be considered. Business tax returns, associated schedules, and profit and loss statements may be waived for secondary businesses when the following

requirements are met for BETA or ALPHA:

- Income/loss referenced on Tax Returns is generated from a secondary business that is not the borrower's primary income source; and
- All losses are subtracted from the borrower's qualifying income.

OTHER INCOME

UNACCEPTABLE INCOME SOURCES

- Gambling winnings (except lottery continuing for 5 years or more)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement
- Trailing Spouse Income

ANNUITY INCOME

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

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.
- For annuity distributions from a 401(k) or pension. See [Pension/Retirement](#).

AUTOMOBILE ALLOWANCE

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

BONUS AND OVERTIME

- Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. An average of bonus or overtime income should be used, provided the income is consistent and increasing
- A written Verification of Employment (FNMA Form 1005 or Electronic Verification of Employment) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years.
- If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

CAPITAL GAINS

- When income from capital gains is used to qualify the borrower, Tax Returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain is a one-time occurrence, it should not be considered when calculating income available.

- For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.
- In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

CHILD SUPPORT, ALIMONY OR MAINTENANCE INCOME

For child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.
- Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.
- Note: Rockstone expects lenders originating loans for sale to Rockstone to make appropriate disclosures, as required under the Equal Credit Opportunity Act, that child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

COMMISSION INCOME

Commission earnings should be averaged over the most recent 2 years and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent 2 year period or a complete written Verification of Employment.

A borrower on their current job for less than 2 years with a minimum 2 year history of receiving commission in the same line of work may also qualify to use commission earnings.

- If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a decline in earnings from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

DECLINING INCOME

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

- A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2 year period must be used and may not be averaged.

DISABILITY INCOME

Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:

- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and there is no evidence the income is not likely to continue.
- A copy of the most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:

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

In documenting disability income, lenders originating loans for sale to Rockstone must not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

DIVIDEND/INTEREST INCOME

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

- Document a two (2) year history of income, as verified by:
 - Tax Returns; or
 - Copies of the account statements

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

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

EMPLOYMENT BY A RELATIVE

Income for borrowers who are employed by a relative must be verified with one of the following:

- Tax Returns for the most recent 2 years with transcripts or
- W-2s for the most recent 2 years with transcripts; and
- Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2 year period. Clarification of potential ownership by the

borrowers of family-owned businesses may also be required.

FOREIGN INCOME

Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. Tax Returns reflecting the foreign income
- Standard income stability and continuance requirements must be met.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is ineligible.

FOSTER CARE INCOME

- Income derived from foster care payments may be considered if there is a 2 year history of receipt and there is no evidence the income is not expected to continue.
- Income received at least 12 months can be considered if the income doesn't represent more than 30% of the total gross income used to qualify.
- The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposits of the payments.

HOURLY WAGES

Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history lookback period. If there is an indication of declining income, the current income is used instead of the average.

HOUSING ALLOWANCE

- Housing allowance received can be considered income for qualifying the borrower.
 - Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income.
 - The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance.
 - Housing allowance is non-taxable income and can be grossed up for qualifying.

NON-TAXABLE INCOME

- Non-taxable income can be grossed up by 25%.
- Certain income types may contain both taxable and non-taxable income. Tax Returns may be required to accurately determine the non-taxable portion.
- Social Security income may be grossed up by 15% without needing further documentation.
- Income may not be grossed up for calculating Residual Income.

NOTES RECEIVABLE INCOME

Income from notes receivable can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least six months and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with evidence of receipt for the most recent six months.

PART-TIME/SECOND JOB INCOME

Verification of a minimum history of two years from secondary employment is recommended, however income that has been received for at least one year may be considered if there are positive factors to offset the shorter income history.

PENSION/RETIREMENT

Pension and retirement income must be verified with any of the following:

- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax Returns for the most recent 1 or 2 years
- W-2 forms or 1099 forms for the most recent 1 or 2 years
- Bank statements reflecting regular deposits for the most recent 2 months.

Proof of Continuance:

- If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.
- If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves.

RENTAL INCOME – FULL DOC

GENERAL INFORMATION

Rental income is permitted for both purchase and refinance transactions.

- Primary Residence:
 - The calculated figure would be considered as net rental income/loss and the full PITIA will be counted as a debt.
- Investment Property:
 - The calculated figure less the proposed/existing PITIA will be used to determine the net rental income/loss.

RENTAL INCOME – TAX RETURNS PROVIDED

Full Doc

When Tax Returns are used for qualifying, rental income should be calculated using the FNMA Cash Flow Analysis Method.

RENTAL INCOME – NO TAX RETURNS

Available on Full or Alt Doc loans

Refinance / Other REO:

- Provide evidence of the borrower's ownership of the property.

- Lease agreement. When the property has been recently constructed or rehabbed, if a lease is not yet available, evidence the property is listed for rent must be provided.
- Evidence the rental amount is at market rate.
 - On a refinance, the subject property market rents would be documented via a 1007/1025.
 - For other REO, this may be documented through a 1007/1025 or an online source.
- Two months bank statements demonstrating receipt of rental income, unless property was recently rehabbed or constructed.
- 75% of the rental amount on the lease or market rents when a lease is not available for newly constructed or rehabbed properties, is used for qualifying.

Purchase:

- 75% of the appraiser's opinion of market rents on FNMA 1007/1025.

Departing Residence:

- Lease agreement, along with evidence the rental amount is at market rate documented through a 1007/1025 or online source.
- 75% of the rental amount on the lease is used for qualifying.

SHORT TERM RENTAL (NON DSCR)

Defined as properties leased for < 30 days or advertised as a short term rental.

- Available on a Purchase or Refinance
 - On a refinance, the property must be actively marketed as an STR.
- Full or Alt Doc
- When STR Income from the subject property is used for qualifying, evidence from a third party vendor (such as Property Guard, Vrolio or equivalent) validating the governing municipality allows properties to be rented on a short term basis is required.

Rental Income Documentation Options:

- **Option 1:** Lesser of 1007/1025 or an Alternative Short Term Rental Analysis completed through an Appraisal Management Company.
 - When the 1007/1025 is prepared with the use of short-term rentals or when an alternative short term rental analysis is provided, the appraiser is required to address the seasonality of the short term rental market in computing the market rent. If the appraiser fails to appropriately address for seasonality, gross rents should be reduced by a 50% vacancy.
 - When an alternative Short Term Rental Analysis is provided, property addresses must be included for the rental comps.
- **Option 2:** 12-month lookback to determine average rents or annual or monthly statements from AirBNB or similar service. If property has only been in service for less than a year, a lesser figure may be considered with sufficient documentation to be able to annualize the income.
- **Option 3:** Tax Return along with a Schedule E using the FNMA Cash Flow method for qualification purposes.

RESTRICTED STOCK UNITS (RSU)

Restricted stock units (RSUs) are issued to an employee as a form of compensation based on either performance or time on the job. To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions.

For performance-based awards:

- A minimum of 24 months history of restricted stock income from the current employer is recommended. Restricted stock income received from 12 to 24 months from the current employer may be considered acceptable if there are positive factors to offset the shorter income such as:
 - Future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or
 - Restricted stock income received from the previous 5 years from any employer.

For time-based awards:

- A minimum of 12 months history of restricted stock income from current employer

Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered as eligible income until vested.

RSU Documentation

- The following documentation is required:
 - Evidence that stock is publicly traded;
 - Current vesting schedule reflecting past and future vesting;
 - Brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and,
 - The number of vested shares or cash equivalent; and
 - A completed WVOE that shows restricted stock distributions, or the borrower's recent paystub and year end W2s or paystubs showing the stock distributions.

SEASONAL INCOME

Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

- A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers being rehired. Seasonal income should be averaged over a 2 year period.

SOCIAL SECURITY INCOME

When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's age)

See also [Non-Taxable](#) Income above.

TIPS AND GRATUITIES

Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented as follows:

- Year to Date paystub, and
- 2 years W2s and W2 Transcripts, and
- Written Verification of Employment.

TRUST INCOME

Trust income can be used for qualification as follows:

- Variable trust payments require a 24-month history of receipt and must be documented with Tax Returns.
- Fixed trust payments require:
 - A minimum of one payment received prior to closing provided:
 - The payments are fixed, AND
 - The borrower is not the grantor of the trust.

In either case, proof of current receipt of the income is required and must be documented with a current bank statement or equivalent documentation.

Continuance of the trust income must comply with standard income requirements:

- When trust income is derived from rental income, evidence of three-year continuance is not required.
- When the income is a fixed payment from a depleting asset, three years' continuance is required.

UNEMPLOYMENT COMPENSATION

- Income derived from unemployment compensation is ineligible due to the limited duration of its receipt.
- Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction).
- The income can be used to qualify on with a 2 year employment history in the same field of work and a 2 year history of receipt of unemployment compensation. Income should be averaged over the period verified.

ALTERNATIVE DOCUMENTATION (ALT DOC)

COMBINATION OF OTHER INCOME SOURCES (ALT DOC)

- W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in Wage Earners along with a processed 4506-C verifying the W-2 earnings only.
- Rental Income: Borrowers using Bank Statement Documentation, who also receive rental

income as a secondary source, are eligible to qualify using both sources of income. When considered, a 25% vacancy factor can be used with evidence of deposits of the rent and copies of the lease. The deposits must be verified through 2-month bank statements from a separate account other than the one used to calculate the self-employed income. When rental income is from a departure residence, a copy of the lease along with evidence the lease is at market rate can be used for qualifying. Provided a 25% vacancy factor is applied.

BANK STATEMENT GENERAL REQUIREMENTS (ALT DOC)

Self-employed borrowers are eligible for either Personal Bank Statement Documentation or Business Bank Statement Documentation. The following restrictions apply to both documentation types:

Borrowers must be self-employed for at least 2 years; and the business must be existence for a minimum of 2 years as evidenced by a letter from either the business tax professional, regulatory agency or licensing bureau. For BETA, borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:

- Option 1:
 - Must be self-employed for a minimum of 18 months and must have a minimum of three (3) years prior experience in the same line of business.
 - See applicable restrictions below.
- Option 2:
 - Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that has been in existence for less than two (2) years, but greater than one (1) year provided the borrower meets the following requirements:
 - Borrower has at least three (3) years of documented previous experience in the same profession, or
 - Evidence of formal education in a related field, and
 - See applicable restrictions below.
- For Option 1 and Option 2, the following restrictions apply:
 - Minimum 700 score
 - Max LTV of 80% Primary Residence 75% Second Home ; 70% for Investment Properties
 - Ineligible for Express(DU) or OMEGA (Super Jumbo)
- For borrowers who are independent contractors and do not necessarily own their own business, they may be qualified using bank statement documentation and must follow the co-mingled accounts guidance. Evidence of filing tax returns and a Schedule C for 2+ years must be provided by their appropriately licensed tax preparer, as well as an Expense Factor and/or P&L supporting their expenses.
- See Calculating Qualifying Income for [Personal Bank Statements](#) and [Business Bank Statements](#) below for more detail.
- The Employment Section of the application must include a minimum of 2 years employment history.
- Non-Permanent Resident Aliens without U.S. Credit and ZETA (Foreign National)s are ineligible.
- Non-Profits and Not for Profits are ineligible.
- At least one of the borrowers must be self-employed.
- All borrowers are required to be account holders of the bank accounts throughout the 12 or 24 months being used to qualify.

- Verify the business is active and operating within 30 days of closing with either a phone listing and/or business address using directory assistance or internet search. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e., consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.

NOTE: Tax returns and 4506-C are not required. If Tax returns and/or Transcripts are provided, the loan will be ineligible.

BANK STATEMENT ANALYSIS

Requirements:

- Statements must be consecutive and reflect the most recent months available.
- The most recent bank statement used for the Bank Statement Analysis must be within 90 days of the Note Date.
- All Programs using bank statements to qualify, in the event updated bank statements are provided to source additional assets and/or funds to close, the Bank Statement Analysis would not need to be updated to reflect those updated statements provided the statements in file are not expired as of the note date.
- Transaction Histories are not acceptable in lieu of bank statements.
- Bank statements provided through a Fintech company working on behalf of the bank can be used provided the bank statement reflects the actual bank information, otherwise an internet search is required to confirm the relationship.
- Asset Statements received via a third-party asset verification vendor are acceptable as long as:
 - The information provided conforms to the information that would be provided on bank statements, and
 - Provider is an authorized FNMA DU Validation vendor. A list of approved vendors can be found at: <https://singlefamily.fanniemae.com/applications-technology/desktop-underwriter-validation-service/du-validation-service-verification-report-vendors>
- Statements must support stable and predictable deposits.
- Statements should show a trend of ending balances that are stable or increasing over time.
- Excessive declining income or negative ending balances may preclude the borrower from bank statement eligibility at underwriter's discretion.
- Any supporting documentation, such as a P&L statement used in conjunction with the bank statements, must align with the dates of the bank statements used for qualifying.
- If personal bank statements provided reflect payments being made on obligations not listed on the credit report, See Undisclosed Debts for additional guidance.

Deposits:

- ATM deposits may be included if a consistent pattern of deposits is present.
- Large deposits are considered as follows:
 - Personal/Co-Mingled Statements: Large deposits greater than **100%** of the average gross deposits over a 12 or 24 month period must be sourced or excluded.
 - Business Bank Statements: Only large deposits greater than **100%** of the average gross deposits over a 12 or 24 month period which appear unusual, inconsistent, or non-business related must be sourced or excluded.
- Any deposit deemed non-business income will be excluded from the income analysis.
- Deposits received directly from family members are considered non-business income and

will be excluded.

- Deposits received from businesses owned by family members will be considered on a case by case basis.
- Decreasing or negative ending balances must be explained.
- Transfers from other accounts on personal/comingled account statements must be documented or excluded. Net transfers between accounts must be excluded when multiple accounts are used for qualifying.
- Transfers from other accounts on business account statements must be documented or excluded only if above the large deposit threshold, or if the deposits appear not to be business income (i.e., proceeds from a loan, online transfers from other accounts owned by the borrower, refunded expenses, tax refunds, another source of documentable income, etc.).
- Wire transfer deposits on personal account/co-mingled statements must be sourced as business income or excluded.
- Wire transfer deposits on business account statements must be sourced only if above the large deposit threshold, or if the deposits appear not to be business income (i.e., proceeds from a loan, refunded expenses, tax refunds, another source of documentable income, etc.).

UNDERWRITING NSFS

The borrower must satisfactorily explain NSF activity in the past 12 months. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility at underwriter's discretion.

- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered unless tied to Overdraft protection. NSF Fees associated with a pre-arranged link to a savings account, line of credit, or when managed according to a banking institution's standard policy are acceptable when:
 - Overdraft protection from a depository/checking account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
 - Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
 - Overdraft protection as standard policy from a banking institution: Occurrences may be excluded if the standard policy of the banking institution automatically provides clients with overdraft protection services that are not linked to another account, and the overdrawn transactions are paid in full and not returned as NSF on or after the transaction date.
 - Bounced check NSF fees are not considered when it's a customer's check that was returned.
 - Occurrences included in the analysis are subject to the following tolerances:
 - An occurrence is defined as one or more checks returned the same day excluding customer checks that were returned. NSFS are reviewed for the past 12-month period only.
 - If there are two (2) or more occurrences in the most recent two (2) month period, up to five (5) occurrences are allowed in the most recent twelve (12) month period.
 - If there are zero (0) occurrences in the most recent three (3) month period, up

to seven (7) occurrences in the most recent twelve (12) month period is acceptable.

- The Underwriter, at their discretion, may consider tolerance deviations outside of the above with a sufficient letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified. The underwriter will review the letter to ensure the explanation supports the viability of income and overall strength of the transaction.

PERSONAL BANK STATEMENTS (ALT DOC)

Borrowers may provide either 12 or 24 consecutive months of personal bank statements.

The following documentation is required (See also Bank Statement General Requirements):

- 12 or 24 months complete personal bank statements from the same account
- Most recent 2 months of business bank statements if available. If a business account does not exist, see Co-mingled Accounts below.
- To consider allowing 100% of deposits, evidence of online transfer/check from the business account to the personal account must be evident.
- When using 100% of online transfer/check deposits going from the business account to the personal account, all other deposits are excluded.
- A pattern/history of deposits from the business account to the personal account must be established.
- When personal accounts are jointly owned and the other party is not an owner of the business and/or a borrower on the loan, all deposits not able to be readily identifiable as business income must be excluded.

CALCULATING QUALIFYING INCOME

- Qualifying income using Personal Bank Statement Documentation is the sum of total eligible deposits divided by 12 or 24 months.
- Only transfers or deposits from the business account(s) are considered eligible deposits.

CO-MINGLED ACCOUNTS

Co-mingled accounts are defined as a single account reflecting both personal and business expenses. Co-mingled accounts are considered a business bank statement from an Expense Methods standpoint as listed under the Business Bank statements section below.

BUSINESS BANK STATEMENTS (ALT DOC)

Borrowers may provide either 12 or 24 consecutive months of business bank statements.

The following documentation is required (see also Calculating Qualifying Income below):

- 12 or 24 months complete business bank statements from the same account
- Multiple bank accounts may be used for multiple businesses.
- Multiple bank accounts may also be used if a borrower shows they closed the initial account to use another.
- Multiple bank accounts may be used for the same business, provided transfers amount accounts are excluded.
- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Required Expense Statement Documentation applicable to Calculation Option chosen (see Calculating Qualifying Income below for requirements).
- Qualifying Income must be multiplied by the ownership percentage to determine the

- owner's portion of income eligible for the transaction.
- Verification that borrower is minimum 25% owner of business:
 - Ownership percentage must be documented via a letter from their appropriately licensed tax preparer, Operating Agreement, or equivalent.
 - All non-borrowing owners of the business or the CFO for the company or licensed tax preparer must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.

CALCULATING QUALIFYING INCOME

To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

OPTION 1: 50% EXPENSE RATIO

Qualifying Income is the monthly net income from deposits less the 50% expense ratio.

OPTION 2: THIRD PARTY P&L EXPENSE STATEMENT

- Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense ratio calculated by the P&L Statement provided by appropriately licensed tax preparer and divided by either 12 or 24 months.
 - Qualifying Income is the monthly net income from deposits less the P&L expense ratio (minimum 15%)
- Required P&L Documentation:
 - P&L Statement is used to calculate the expense ratio for a 12 or 24 month bank statement program.
 - P&L Statement must be signed and dated by the appropriately licensed tax preparer or PTIN.
 - The individual who signs the P&L Statement must attest that they have prepared the borrower's most recent tax returns.

OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT

- Qualifying Income is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense ratio provided by appropriately licensed tax preparer and divided by either 12 or 24 months.
- The Expense Statement must be prepared and signed by an appropriately licensed tax preparer specifying business expenses as a percentage of the gross annual sales/revenue. The licensed tax preparer must attest they have either prepared or reviewed the borrower's most recent Tax Return
- A minimum 15% Expense Ratio is required.

P&L PLUS 2 MONTHS BANK STATEMENTS (ALT DOC)

- 12 or 24 month P&L, prepared by an appropriately licensed tax preparer.
- Minimum of 2 months business or comingled bank statements are required to support income.
- The P&L must be dated within 90 days of the application date.
- The licensed tax preparer must attest to the fact they have prepared the borrower's most recent Tax Returns.
- Qualifying income is the monthly net income from the P&L divided by the number of months covered by the P&L. The monthly gross revenue from the P&L must be supported

by the bank statements provided. The total monthly average deposits from the bank statements, minus any disallowed deposits, must be no more than 20% less than the monthly gross revenue on the P&L.

- Depreciation, depletion and amortization/casualty losses listed on the P&L may be added back to the applicant's income.
- When evaluating the P&L, the expenses are expected to be at least 15% of gross revenue. In the event less than 15% is reflected in expenses, the net income will be adjusted to reflect a 15% expense level when qualifying.

P&L ONLY (ALT DOC)

- For Wholesale loans, a verbal verification is required prior to closing.
- 12 or 24 month P&L prepared and signed by an appropriately licensed tax preparer .
- The P&L must be dated within 90 days of the application date.
- The tax preparer must attest to the fact they have prepared the borrower's most recent tax returns.
- Qualifying income is the monthly net income from the P&L divided by the number of months covered by the P&L.
- Depreciation, depletion and amortization/casualty losses listed on the P&L may be added back to the applicant's income.
- When evaluating the P&L, the expenses are expected to be at least 15% of gross revenue. In the event less than 15% is reflected in expenses, the net income will be adjusted to reflect a 15% expense level when qualifying.

CPA/TAX PREPARER'S VERIFICATION

Tax preparers must be appropriately licensed and certified to be considered acceptable as a means of supporting alternative documentation qualifying methods. Acceptable designations may include Certified Public Accountants (CPAs), Tax Attorney, Enrolled Agents (EA), California Tax Education Council (CTEC) participants, or other preparers with a valid Preparer Tax Identification Number (PTIN).

Verification Standards:

- Tax Preparers must provide a PTIN where applicable. In states within PTIN mandates, the preparer must be a verifiable third party, confirmed via official state or business websites. PTINs may be verified via <https://www.irs.gov/tax-professionals/ptin-information-and-the-freedom-of-information-act>.
- CPAs: Licenses must be verified via <https://cpaverify.org/>. If digital verification is unavailable, alternative documentation providing active licensure is required.
- CTECs: Certification must be confirmed through <https://ctec.org/>.

IRS FORM 1099 (ALT DOC)

1099 Income documentation eligibility is limited to individual borrowers being paid via a 1099 who are not the business owner of the entity issuing the 1099. Self-employed borrowers who are business owners paying their earnings via a 1099 are not eligible for this income documentation type.

Documentation Requirements:

- Provide one of the following when the 1099 is > 90 days from the Note Date:
 - Evidence of year-to-date earnings via YTD bank statements,
 - A printout of YTD wages from their employer/employers, or
 - The Rockstone VOE (or similar form) with YTD income completed by each employer

Qualification:

- A 10% automatic expense ratio will apply when the 1099 is paid to the borrower individually.
- In the event the 1099 is paid to the borrower's business, the loan may be considered, however an Expense Letter from the borrower's appropriately licensed tax preparer is required to determine the qualifying income.

ASSET UTILIZATION (ALT DOC)

QUALIFIED ASSETS

Qualified Assets can be comprised of publicly traded stocks, bonds, mutual funds, vested amount of retirement accounts, bank or investment accounts, and crypto-currency.

- Three (3) months' seasoning of all assets is required (Three most recent and consecutive statements **or most recent quarterly statement**).
- All individuals listed on the asset account must be on the note and mortgage.
- Assets held in the name of a business are not eligible to be used for the asset utilization calculation.
- Asset statements utilized for asset utilization cannot be used to document any other income source.

Assets held in a trust are eligible if the following requirements are met:

- If the funds are held in a revocable trust, the borrower is the trustee.
- If the funds are held in an irrevocable trust, the borrower is the beneficiary and the borrower has immediate access to the assets of the trust.

Qualified Assets:

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 100% of the cash surrender value of a life insurance policy, less any loans outstanding against the policy
- 80% of the value of publicly traded stocks & bonds
- Vested Retirement Accounts:
 - 70% for Borrowers 59 ½ or older
 - 60% for Borrowers < 59 ½
- Certificates of Deposits calculated at 100% of the pre-maturity surrendering value of the CD, minus any penalty that has been accumulated upon early withdrawal.
- 60% of Crypto funds based on the current valuation determined from the Coinbase exchange

Ineligible Asset Sources:

- Business assets
- Unseasoned foreign assets
- College savings accounts i.e., 529 plans
- Proceeds from sale of real estate not seasoned 3 months
- Privately traded or restricted/ non-vested stocks
- Assets which produce income already included in the income calculation.
 - See related Program Guides for details

NET QUALIFIED ASSET CALCULATION

- Qualified assets less funds used for down payment, closing costs, and prepaids, when used as the sole source of income.
- Qualified assets less funds used for down payment, closing costs, prepaids AND reserves, when used as supplemental income.

DTI Calculation for ALPHA, BETA, ITIN, Sigma (Second Lien), and ZETA (Foreign National):

- When the DTI without Asset Utilization is $\leq 60\%$:
 - Monthly Income Calculation = Net Qualified Assets / 36 Months
- When the DTI without Asset Utilization is $> 60\%$ or when the borrower's entire income is comprised of income from assets:
 - Monthly Income Calculation = Net Qualified Assets / 84 Months
- Additional requirement for ZETA (Foreign National) borrowers:
 - Borrower must have the lesser of the below net of down payment, closing costs and reserves:
 - 1.5 times the loan balance OR
 - \$1,000,000

DTI Calculation for OMEGA (Super Jumbo):

- Monthly Income Calculation = Net Qualified Assets / 84 Months

WRITTEN VERIFICATION OF EMPLOYMENT (WVOE) (ALT DOC)

- WVOE – FNMA 1005 completed with the past 2 years of income/employment. The form must be completed by Human Resources, Payroll or an Officer of the Company.
- Verification of delivery and receipt of the FNMA Form 1005 must comprise the following form of documentation: Physical mail, Fed-Ex, facsimile, or email communication. Physical mail, Fed-Ex, and facsimile must come directly from the employer's address. Email communication must properly identify the Company representative.
- Two (2) most recent months of bank statements reflecting deposits from the employment verified via the WVOE in both statements. The deposits must support at least 65% of the gross wages reflected on the WVOE.
- One-year history with the same employer with minimum two (2) years in the same line of work.
- Minimum credit score of 680.
- 0x30x12 housing history is required; borrowers without a housing history must qualify under a different documentation type.
- Primary Residence Max 80% LTV; Second Homes and Investment Property Max 75% LTV.
- Maximum loan amount of \$1,500,000
- Family members or related individuals may not employ borrowers.
- Borrower may not have any other active source of employment income.
- W2s, Tax Returns, Paystubs, 4506-C are not required.

RESIDUAL INCOME

As noted in the Program requirements, minimum residual income thresholds apply to HPML loans or when the DTI is $> 43\%$ on Primary Residence and Second Homes only using the following calculation:

$$\text{Residual Income} = \text{Gross Monthly Income} - \text{Total Monthly Obligations}$$

The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

Number of Household Members	Minimum Residual Income*
1 Person	\$1,500
2 People	\$2,500
For each additional household member	\$150

***Instructions for using the Household Members table above:** For the household member count, include all related and unrelated members of the household who depend on the borrower(s) for support.

RATIOS AND QUALIFYING – FULL AND ALT DOC

DEBT TO INCOME RATIO (DTI)

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income. The maximum DTI varies by Program and can be found on the applicable matrix.

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues, including Mandatory Membership Dues
- Any subordinate financing payments on mortgages secured by the subject property.

NON – QM PRODUCT TERMS

Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over terms listed below. For example, a 40-year loan with a 10-year-interest only period would be qualified with the 30-year amortizing payment.

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
5/6 ARM	Higher of Fully indexed or Note Rate	360	N/A	360	30-day avg SOFR	2/1/5
5/6 ARM I/O	Higher of Fully indexed or Note Rate	360	120	240	30-day avg SOFR	2/1/5

5/6 ARM I/O	Higher of Fully indexed or Note Rate	480*	120	360	30-day avg SOFR	2/1/5
7/6 ARM	Note Rate	360	NA	360	30-day avg SOFR	5/1/5
7/6 ARM I/O	Note Rate	360	120	240	30-day avg SOFR	5/1/5
7/6 ARM I/O	Note Rate	480*	120	360	30-day avg SOFR	5/1/5
15 YR FIXED	Note Rate	180	N/A	180	NA	NA
30 YR FIXED	Note Rate	360	N/A	360	NA	NA
30 YR FIXED I/O	Note Rate	360	120	240	NA	NA
40 YR FIXED **	Note Rate	480	N/A	480	N/A	N/A
40 YR FIXED I/O	Note Rate	480*	120	360	NA	NA

*Buydowns: Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown)

**40 Year fixed:

- The borrower qualifies with a DTI of below 50% calculated using the payment under a 40-year amortization, and
- The borrower qualifies with a DTI of below 55% calculated using the payment under a 30-year amortization.

SIGMA (SECOND LIEN) SENIOR LIEN QUALIFYING TERMS

- When the new loan is a Stand Alone 2nd and the existing 1st is an Interest Only, qualify using the IO payment to a max DTI of 45%
- For 1st lien ARMs with < 3 years fixed period remaining are to be qualified using the fully indexed payment.

DSCR PRODUCT TERMS

The DSCR PITIA is computed using interest only payment, taxes, insurances and association dues based on the qualifying terms described below.

PRODUCT	QUALIFYING RATE*	TERM	I/O TERM	AMORT TERM	INDEX	CAPS
5/6 ARM	Note Rate	360	N/A	360	30-day avg SOFR	2/1/5
7/6 ARM	Note Rate	360	NA	360	30-day avg SOFR	5/1/5
15 YR FIXED	Note Rate	180	N/A	180	NA	NA
30 YR FIXED	Note Rate	360	N/A	360	NA	NA

30 YR FIXED I/O	Note Rate	360	120	240	NA	NA
40 YR FIXED *	Note Rate	480	N/A	480	N/A	N/A
40 YR FIXED I/O	Note Rate	480*	120	360	NA	NA

*If applicable, Buydowns: Qualify off full payment (Permanent Note Rate, rather than the terms of the buydown).

DSCR RATIOS AND RENTAL INCOME REQUIREMENTS – I-4 UNIT RESIDENTIAL

DSCR RATIO

- DSCR Ratio Calculation:
 - $\text{DSCR Ratio} = \text{Short or Long Term Gross Rental Income} / \text{PITIA Fully Amortizing or ITIA (for IO Loans)}$.

LEASE AND OCCUPANCY REQUIREMENTS – DELTA PRIME (DSCR) AND DELTA (DSCR)

Occupancy Standards

- Purchases
 - It is acceptable for the property to be vacant at the time of purchase.
- Refinances must be leased unless:
 - Property is being used as a Short Term Rental; or
 - Property was recently rehabbed or constructed; or
 - Transaction is Delayed financing; or
 - It is a 2-4 unit property with 1 vacant unit provided the unit is listed for rent.
- Cash Out Restriction
 - Not permitted on unleased recently constructed/rehabbed properties or delayed financing transactions with scores under 720.
- Prohibited Occupancy
 - Property cannot be occupied by the borrower(s), any member of the borrower's LLC or any family member.
 - Lease agreements that allow single room occupancy or boarder leases are not permitted.

LONG TERM RENTALS – DELTA PRIME (DSCR) AND DELTA (DSCR)

Defined as any property leased for 30 days or more, including monthly or seasonal rentals.

Documentation Requirements:

- FNMA 1007/1025
- Refinances require leases with no less than 1 month remaining at the time of closing for all occupied units in the subject property.
 - Month to month tenancy permitted with evidence of continuance (1007/1025 confirming occupancy, extension letter, bank statements, etc.)
 - Evidence property is listed for rent for acceptable vacant units per Lease and

Occupancy Requirements section.

Monthly rents are calculated as follows:

- Purchases
 - Market Rents should be used for qualifying
- Refinances
 - If using the lesser of market rents or the lease, nothing further is required.
 - If using a higher lease amount, evidence of 2 months of receipt is required. The rents cannot be prepaid to meet the 2 month requirement. This option is not available for monthly or seasonal rentals.
 - For a vacant unit in a 2-4 unit property, 100% of market rents must be used for qualifying.

SHORT TERM RENTALS – DELTA PRIME (DSCR) AND DELTA (DSCR)

Defined as properties leased for < 30 days or advertised as a short term rental.

Restrictions:

- Min DSCR ≥ 1.15
- Max LTV: Lesser of 75% or the Matrix LTV/CLTV
- Product Eligibility:
 - DELTA PRIME (DSCR): Refinance Only
 - DELTA (DSCR): Purchase or Refinance

Short Term Gross Rental Income Options:

- 1007/1025 or
- Alternative Short Term Rent Analysis form developed by an AMC or
- 12-month look back on rents received using bank statements or third party rental statements. Note that a 1007/1025 or Alternative Short Term Rental Analysis is still required when this option is chosen.

Additional Requirements:

- When the 1007/1025 is prepared with the use of short-term rentals or when an alternative short term rental analysis is provided, the appraiser is required to address the seasonality of the short term rental market in computing the market rent. If the appraiser fails to appropriately address for seasonality, gross rents should be reduced by a 50% vacancy.
- When an alternative Short Term Rental Analysis is provided, property addresses must be included for the rental comps.
- On a refinance, the property must be actively marketed as a short-term rental.
- Evidence from a third party vendor (such as Property Guard, Vrolio or equivalent) validating the governing municipality where the subject is located allows properties to be rented on a short term basis must be included in the loan file.

Geographic Restrictions:

- Not permitted in the five (5) New York City Boroughs.

NO RATIO RENTAL INCOME REQUIREMENTS

- For purchase transactions, it is acceptable for the property to be vacant.
- Vacant properties on a refinance are not eligible.
- If the property is currently tenant occupied, the 1007/1025 must reflect the terms of the lease.
- Gross market rents are calculated using the lesser of the lease amount or market rents from the 1007/1025.
- A copy of the lease is not required.

- Property cannot be occupied by the borrower(s), any member of the borrower's LLC or any family member.
- Short term rentals are ineligible.

MULTI 5-8 UNIT RENTAL INCOME REQUIREMENTS

RENTAL INCOME REQUIREMENTS

- Use lower of Estimated market rent or lease agreement on a refinance.
- Purchases use the estimated market rent.
- For leases that have been converted to month-to-month, provide 2 months bank statements to support rental income.
- Reduce qualifying rents by any management fee reflected on the appraisal report.

LEASE REQUIREMENTS

- For Purchase, Rate & Term Refinance and Cash-Out transactions, all units must be either leased or in lease ready condition meaning the properties have been cleaned, no renovations or repairs to the properties are needed and the properties are immediately available to be leased to an eligible tenant.
- On purchase transactions, copies of the leases are not required.
- Properties with expired leases that have been converted to month per the terms of the lease will require bank statements for the lesser of two months or the period after the lease has expired.
- Corporate lease agreements are acceptable with lease terms consistent with typical market standards and will be subject to standard market rent verification.
- Lease agreements that allow single room occupancy or boarder leases are not permitted.
- Short term rentals are not permitted.
- Third party sale and leaseback agreements or contract for deed transactions will not be permitted.
- All leases must be in U.S. Dollars.

OCCUPANCY REQUIREMENTS

- Vacant Unit(s) – Use 75% of the market rents to qualify.
 - Max 2 vacancies.
 - On a purchase, a max of 3 vacancies is permitted on a 7+ unit property.
- Must provide evidence vacant units are activity listed for rent or have a recently executed lease in place.
- All units must be in lease-ready condition.

ELIGIBLE TENANTS

- Neither the borrower(s) nor the borrower's immediate family shall at any time occupy the residential units.
- Borrowers must attest that all residential tenants are non-borrower affiliated.

ASSETS

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs,

prepaid items, debt payoff, and applicable reserves. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances. Assets must be dated within 90 days of the note date.

ASSET DOCUMENTATION

Assets required for down-payment, closing costs and reserves may be documented using one of the following options:

- One-month account statement, transaction history, or most recent quarterly statement. Statements must include:
 - Opening and closing balances
 - Borrower listed as account holder
 - Account number
 - Statement date and period covered
 - Current balances in U.S. dollars
- Written Verification of Deposit, completed by the financial institution.
- Accounts verified using a FNMA approved third-party vendor.

Non-Borrowing parties on the account (excluding a non-borrowing spouse) must provide a written statement that the borrower has full access and use of the funds. See also [Spousal Accounts](#).

All pages of any statements provided for Asset Documentation are required. Summaries will not be accepted.

LARGE DEPOSITS

- Large deposits, defined as > **100%** of the total gross income for all borrowers, must be documented on Full and Alt Doc purchase transactions when personal accounts are used.
- Large deposits are not required to be sourced on business accounts when used for assets. When using bank statements for income, the large deposits used for income purposes must be documented in accordance with the [Bank Statement Analysis Requirements](#)
- Large deposits are not required to be sourced on refinances or DSCR transactions.

BUSINESS ASSETS

Business assets are eligible as follows:

- Unless required by the related Program, the borrower must have minimum 25% ownership and must be an owner on the business account.
- The balance of the business assets must be multiplied by the borrower's ownership percentage of the business unless the other business owners provide a letter stating the borrower has full access to the funds. In that instance, 100% of the funds may be used.
 - Borrower ownership is to be documented via a CPA letter, Operating Agreement or equivalent.
- When the Business Assets are from the entity holding title to the property, the entire balance of the assets may be used for qualifying, and an access letter is not required.

FOREIGN ASSETS

Foreign Assets may be verified from a letter of reference on company letterhead from a verifiable banking institution. Contact information for the person signing the letter must be provided, and the letter must state the type of relationship, length of the relationship, how accounts are held and the current balance. Any documents not in English or US Currency must be translated.

Foreign Assets may be used for down payment, closing costs, and reserves (not permitted on

Second Liens).

- If the borrower has a valid Social Security (SSN) all funds required for down payment, closing costs, and reserves must be seasoned for 30 days.
 - If the borrower does not have a valid SSN (i.e., ITIN or ZETA (Foreign National) using foreign assets), 60 days' seasoning is required.
 - Foreign assets deposited into a U.S. institution within 60 days of application is acceptable if there is evidence that the funds were transferred from the country from which the borrower previously or currently resides.
 - It must also be established that the funds belonged to the borrower before the date of transfer.
- Assets required for closing (down payment and closing costs) must also be seasoned in a U.S. depository institution for 10 days prior to closing or wired directly to the closing agent (a foreign bank that is in the U.S. e.g., RBC is considered in a U.S. Depository).
- Assets required for reserves:
 - The funds are to be converted to U.S. dollars using the current exchange rate. A letter of reference on company letterhead from a verifiable banking institution may also be obtained.
 - Contact information must be provided by the person signing the letter, and the letter must state the type of relationship, length of the relationship, how accounts are held, and current balance.

OTHER ASSETS

BORROWED FUNDS SECURED BY AN ASSET

Borrowed funds that are secured by an asset can be used as a source of funds for down payment, closing costs, and reserves. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, publicly traded stocks and/or bonds, and 401(k) accounts.

- The terms of the secured loan and transfer of funds to the borrower should be documented. The individual providing the secured loan cannot be a party to the transaction.
- The monthly payments for the loan secured by non-financial assets must be counted in the debt-to-income ratio. However, when the loan is secured by the borrower's financial assets and there are sufficient assets to pay off the loan currently verified, the monthly payment for the loan does not have to be considered as a long-term debt when qualifying the borrower (as in the case of a 401(k) loan).
- If the same financial asset is also used as part of the borrower's financial reserves, adequacy of the borrower's reserves must be determined after taking into consideration the net value of the asset after it has been reduced by the proceeds from the secured loan (and any related fees).

CERTIFICATE OF DEPOSIT (CD)

Certificates of Deposits are eligible for closing costs, reserves, or asset utilization subject to the following guidance:

- Value to be calculated at 100% of the pre-maturity surrendering value of the CD, minus any penalty that has been accumulated upon early withdrawal.

COLLEGE SAVINGS ACCOUNT – 529 PLAN

Typically, a 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account, and the account is revocable.

- A copy of the plan is required to ensure it is a savings plan, and not a prepaid tuition plan. 529 accounts may be used to satisfy reserve requirements at 60% of the value.

CRYPTO CURRENCY

Crypto Currency – such as Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves.

Down payment and Closing Costs

- Must be liquidated and deposited into an established U.S. bank account.

Reserves and Asset Utilization

- Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings.
- Current valuation, within 30 days of the loan note date, can only be determined from the Coinbase exchange.
- 60% of the current valuation will be considered eligible funds.

EARNEST MONEY/CASH DEPOSIT ON SALES CONTRACT

If earnest money is needed to meet the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source. Satisfactory documentation includes any of the following:

- Copy of the borrower's canceled check.
- Certification from the deposit holder acknowledging receipt of funds.
- VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money at the time of the deposit.
- If funds were given over 12 months ago per the sales contract, then an escrow letter will suffice for sourcing of any funds given greater than 12 months from the closing date.

If the earnest money check has cleared the bank, bank statements should cover the period up to and including the date the check cleared the account. A copy of the check that has not cleared may also be obtained along with a processor's certification verifying with the bank the date the check cleared, the dollar amount of the check, and the individual providing the information.

EMPLOYER ASSISTANCE

Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment / closing costs subject to minimum Borrower contributions, may be used for reserves except for unsecured loans and are only eligible for Primary Residence. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.

Documentation Requirements:

- That the Assistance Program is an established company Program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer's assistance.
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan.
- The terms of any other employee assistance being offered to the borrower (such as

- relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

GIFT FUNDS

Gift Funds are acceptable as follows:

- For Primary Residence and Second Home loans:
 - Max LTV per the matrix permitted with 5% minimum borrower contribution on ALPHA, BETA and ITIN.
 - Max LTV per the matrix permitted with 20% minimum borrower contribution on OMEGA (Super Jumbo).
 - 100% gift funds are eligible for downpayment and closing costs on BETA, and ALPHA using Full or Alt Doc up to a maximum of 80% LTV.
 - 100% gift funds are eligible for downpayment and closing costs on ITIN to a maximum of 75% LTV.
- For Investment Properties:
 - Max LTV per the matrix permitted with a 5% minimum borrower contribution for ALPHA, BETA, ITIN, DELTA PRIME (DSCR) and DELTA (DSCR).
 - Max LTV per the matrix permitted with a 10% minimum borrower contribution for DSCR No Ratio and GAMMA (DSCR Multi) 5-8.
- Funds from a spouse or domestic partner are not considered gift funds. See [Spousal Accounts](#) for additional criteria when using funds held solely in the name of a spouse.
- Maximum loan amount of \$1,000,000 on a ZETA (Foreign National) when gift funds are used.

Gift Requirements

- Gift funds can be used for down payment and closing costs.
- Gift funds may not be used to meet reserve requirements, with the exception of ZETA (Foreign National) loans.
- Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.

Eligible Gift Donors

A gift can be provided by:

- A relative, defined as an individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Gift Documentation Requirements

A signed gift letter is required with the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative, spouse or domestic partner); and
- Dollar amount of gift; and
- Donor's statement that no repayment is expected.

Verifying Donor Ability and Transfer of the Gift Funds

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower
- Settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

GIFT OF EQUITY

Gifts of equity can be used for down payment or to pay closing costs (including prepaid items).

Requirements

- Primary Residence transactions only.
- Borrower contribution is not required.
- Six (6) months of reserves required of borrower's own funds.
 - Standard program reserve requirements apply when the borrower has a minimum down payment of 10% own funds in addition to having their own funds for reserves
- Signed Gift of Equity letter containing the following:
 - Donor's relationship to Borrower, (Gift of equity must be from immediate family member).
 - Indicate that the gift is being provided in the form of a gift of equity.
- All liens on title to be paid in full and reflected on the settlement statement.
- Gift of equity must be listed on the settlement statement.
- The gift of equity is not subject to interested party contributions.
- All Non-ARMS length requirements must be met.

INTERESTED PARTY CONTRIBUTIONS

MAXIMUM CONTRIBUTIONS – FIRST LIEN AND PIGGYBACK SECOND LIEN		
Occupancy	LTV	Max %
	≤ 75%	9%

Primary Residence and Second Homes	75.01% - 90%	6%
Investment Properties	ALL	6%
<i>Note: Percentage is based on of the lower of the property's sales price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions.</i>		

- IPCs not permitted on Stand Alone Second Liens

Sales concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded).

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

LIFE INSURANCE

Net proceeds from the surrender of a life insurance policy or from a loan against the cash value are acceptable for down payment, closing costs, and reserves.

- If the funds are needed for the down payment or closing costs, sellers must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.
- If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated and received by the borrower.
- Any repayment obligations must be assessed to determine any impact on borrower qualification or reserves.
- If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio.
- If additional obligations are indicated, the amount must be factored into the total debt-to-income ratio or subtracted from the borrower's reserves.

NET PROCEEDS FROM SALE OF REAL ESTATE

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final signed settlement statement verifying sufficient net proceeds must be obtained.

RENT CREDIT FOR LEASE WITH PURCHASE OPTION (RENT TO OWN)

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See Lease with Purchase Option for full requirements.

Required Documentation

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

RETIREMENT ACCOUNTS

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

- If the retirement assets are in the form of publicly traded stocks, bonds, or mutual funds, the account must meet the requirements of Stocks, Bonds, and Mutual Funds for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.
- If the borrower intends to use the retirement account to also satisfy income requirements. See also Proof of Continuance.

SALE OF PERSONAL ASSETS

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

The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source.
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.

SPOUSAL ACCOUNTS

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in Asset Documentation.

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements unless the spouse is also on title.

STOCK OPTIONS

Vested stock options are an acceptable source of funds for down payment and closing costs when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- A statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the

optioned stock using the current stock price.

STOCKS, BONDS, AND MUTUAL FUNDS

Vested assets in the form of publicly traded 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. The borrower's ownership of the account or asset must be verified.

- When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.
- When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

TRUST ACCOUNTS

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds. To document trust account funds, both of the following must be obtained:

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

See Trust Income if trust is also being used as a source of income to qualify the borrower.

UNACCEPTABLE FUNDS

- Cash-on-hand
- Custodial accounts that are irrevocable trusts like Uniform Transfer to Minor Act (UTMA)
- Down Payment Assistance (DPA) programs
- Gift or grant funds which must be repaid
- Sweat equity
- Section 8 Voucher Assistance
- Unsecured loans or cash advances

RESERVES

Reserves are measured by the number of months of subject property housing expenses a borrower can pay using his or her financial assets. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

- Net proceeds from cash-out transactions can be used to meet the reserve requirements.
- Gift funds may only be considered as reserves for ZETA (Foreign National)s.
- 1031 Exchange funds cannot be used towards reserves.

Reserves from a person that is party to the transaction are not considered a gift. They must be on the Contract and Title on a purchase and must be on Title at time of application for a refinance.

See related Program Matrices for requirements.

APPRAISALS

APPRAISAL REQUIREMENTS

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The client is responsible for all the following:

- Ensuring the accuracy and completeness of the appraisal and its assessment of the marketability of the property.
- Reviewing the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction at the time of the order.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.
- Loans originating from the Wholesale or Retail channels should refer to the Appraisal Policies and Procedures for further guidance.

EXCLUSIONARY LIST

- Appraisals from an appraiser or Appraisal Firm on the ROCKSTONE Exclusionary List are not permitted. Please refer to the ROCKSTONE Ineligible List on the portal.

APPRAISAL INDEPENDENCE POLICY STATEMENT

It is the policy of Rockstone to comply with all the requirements of the Appraiser Independence Policy provisions of Dodd-Frank as adopted by Fannie Mae, Freddie Mac, and the mortgage industry in general. Rockstone, will only accept appraisals completed by appraisers who are properly licensed or certified in the state in which the property is to be appraised is located.

- Appraisal orders may not contain any estimated or requested value.

- Comparable sales may not be suggested to the appraiser.
- Appraisal order date may NOT be prior to initial signed dated borrowers Application and "Intent to Proceed" issued with the initial application and disclosure package.
 - The Intent to Proceed is not required to be completed on a business purpose loan prior to appraisal ordering.
- A copy of the appraisal is required to be sent to the borrower on all loans regardless of whether the loan is closed, canceled, or denied. Borrowers must receive a copy of their appraisal within 3 business days of the time it is delivered to the lender from the appraisal management company and/or appraiser.
- Except for when transferred appraisal is provided, Retail and Wholesale Appraisals are to be ordered through the Rockstone appraisal desk.
- Correspondents are responsible for ensuring appraisal orders through their approved AMCs or fee panel appraisals comply with the Dodd-Frank Appraisal Independent Policy.
- The AMCs are responsible for ensuring that appraisers selected are fully licensed, insured and meet all Rockstone requirements.
 - Any noted aberrations or concerns are referred to the AMC for discussion and resolution, which can result in removing appraisers from being eligible to perform for Rockstone.

APPRAISER QUALIFICATIONS

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal if the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.

ELECTRONIC SUBMISSION OF APPRAISAL REPORT

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

REQUEST FOR APPRAISAL RECONSIDERATION

If there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the loan file, Corporate Appraisal Management will review and may authorize a second appraisal order in cooperation with Underwriting Management.

The *Appraisal Reconsideration Form* (located on the Intranet under Forms) must be completed and submitted with any documentation via email to the Appraisal Management Area.

AMCs have their own Reconsideration Form, and the appropriate form must be used if a dispute is being requested for any appraisal ordered through an AMC.

AGE OF APPRAISAL AND APPRAISAL UPDATES

Residential Appraisal (1-4 Units)

- The appraisal must be dated within 365 days of the Note date. A recertification of value is required if the report exceeds 120 days of the Note Date. See the [Appraisal Report Requirements](#) section for details.

When an appraisal report will be more than 4 months old (120 days) on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), a photograph of the front of the subject property must be included.

- If the appraiser indicates on Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

The original appraiser should complete the appraisal update; however, sellers may use substitute appraisers. When substitute appraisers complete updates, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The seller must note in the file why the original appraiser was not used.

Commercial Appraisal (5-8-units Multi-family)

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

APPRAISAL TRANSFER POLICY

Transferred appraisals on wholesale transactions are only allowed when the client has received approval from Rockstone. To ensure compliance with the Appraiser Independence Requirements, the following items are required for consideration:

- Evidence appraisal was ordered according to Appraiser Independence Requirements,
- Appraisal Invoice along with proof of payment unless being paid through closing,
- Transfer Letter, signed by an employee of the transferring lender who is not in a production capacity (i.e., Loan Officer, Loan Officer Assistants, etc. are not eligible to sign the transfer letter),
- SSRs, and
- MISMO .XML format of the full appraisal including color photos.

Transferred Appraisals are fully reviewed by underwriting, which may still reject the appraisal if not deemed acceptable.

Unacceptable Transfers:

- Double Transfers or Beyond: Appraisals that have been transferred more than once (e.g., Lender A > Lender B > Rockstone) will not be accepted
- Subject to appraisals
- Expired Appraisals
- Residential 5-8 Unit Appraisals
- Investment Properties in Brooklyn, NY
- All occupancy types in Memphis, TN

Rockstone will transfer appraisals out upon request on denied or withdrawn loans, and will provide appropriate documentation, AIR certs and transfer letters as needed.

APPRAISAL REPORT REQUIREMENTS

APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form for One Unit Properties (FNMA Form 1004)
- Small Residential Income Property Appraisal Report for 2-4 Unit Residential Properties (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (when updates are needed for 1-4 Unit Residential Properties FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit Investment Properties when rental income is used to qualifying (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all Investment Properties (FNMA Form 3170)

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condominium project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data such as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA

Form 1004 where there are comparable used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.

- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.
- A copy of the appraiser's Errors and Omissions Insurance Policy, valid as of the date of the appraisal report, must be included with the appraisal unless confirmation is obtained from the AMC that a copy is on file with them.

APPRAISAL REQUIREMENTS MULTI 5-8 UNIT

APPRAISAL REPORT REQUIREMENTS

Residential 5-8 units:

- FHLMC 71A
- FHLMC 71B for loan amounts < \$750,000
- Narrative report

The following are required with each report:

- Full interior inspection of each unit
- Rent roll
- Income and Expense Statement
- Photos of subject including exterior/interior and street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Appraiser's qualifications

PROPERTY REQUIREMENTS

- Residential or commercial zoning acceptable
- Rural properties are not permitted
- No fair or poor ratings
- No health or safety issues as noted by the appraiser such as broken windows, stairs, etc.
- No excessive deferred maintenance that could become a health or safety issue for tenants
- No structural deferred maintenance such as foundation, plumbing, roof, electrical, etc.
- Must be accessible and available for year round use
- Property usage must represent highest and best use
- Minimum 400 square feet per unit
- Each unit must contain a full kitchen and bathroom

APPRAISAL REQUIREMENTS – SECOND LIENS

PIGGYBACK (COMBINED NEW FIRST AND SECOND LIENS):

- Full appraisal with interior/exterior inspection and an appraisal review product on all loans unless two full appraisals are provided.

STAND ALONE:

- Loan amounts $\geq$ \$400,000 – Full appraisal with interior/exterior inspection
- Loan amount $<$ \$400,000 – An Exterior Property Condition Inspection Report and an AVM with a 90% Confidence Factor from Clear Capital, Collateral Analytics, CoreLogic, House Canary or Veros.
- If the AVM does not meet the above requirements, a full appraisal with interior/exterior inspection is required.

SECOND APPRAISAL REQUIREMENTS

Second appraisals are required as follows:

- For residential 1-4 unit properties with a loan amount $>$ \$2,000,000
- On second liens when the combined lien balance of a piggyback is $>$ \$2,000,000
- For Multi 5-8 unit properties with a loan amount $>$ \$2,000,000 when Form 71A or Commercial Narrative report is not provided
- An HPML subject to the [Flipping Provision](#)
- As required based on the [Appraisal Review Process](#)

The lesser of the two values will be used for qualifying purposes.

ORDERING / AUTHORIZING A SECOND APPRAISAL

Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction when not required per program guidelines is generally not allowed except under specific circumstances.

If a second appraisal is required, the same process is followed to order the appraisal. The lower of the two values is used to determine LTV eligibility.

If the Underwriter requires a second appraisal or review appraisal because they identify flaws or issues with the initial appraisal, a second appraisal may be ordered.

Should a second appraisal be ordered after underwriting review (or as noted, approved and allowed by senior management), the valuation shall be determined by the second appraisal, regardless of whether the value is higher or lower than the original appraisal. In other words, if the second appraisal returns a higher or lower value than the first appraisal, the second appraisal will be used to establish value; cannot revert to original appraisal.

CHARGES FOR SECOND APPRAISAL OR INSPECTION

Second appraisals and/or inspections, unless previously disclosed on the Loan Estimate on TRID loans, may not be charged to the borrower in most cases. It is advised to correctly disclose appraisal, second appraisal and/or inspection fees (if required by Program or if anticipated to be required) at the time the initial Loan Estimate is issued.

Should a Program change necessitate a second appraisal or inspection, a correctly completed re-disclosure and Change of Circumstance must be completed to enable the amount to be charged to the borrowers.

APPRAISAL REVIEW PROCESS

To ensure property values are backed by well-documented valuations, we strongly encourage the use of all available tools and resources prior to delivery. While the Appraisal Review Process outlined below establishes our minimum requirements, utilizing automated valuation models

(AVMs), appraisal gap analyses, local market trend data, and the most current comparables will help safeguard the process and minimize potential valuation discrepancies.

Please note that Rockstone. maintains a commitment to data integrity and collateral security through the lending cycle. Consequently, we reserve the right to request additional appraisal products or secondary valuation services at our discretion, based on a comprehensive review of the appraisal, market data, and the loan file.

APPRAISAL REVIEW PROCESS – 1-4 UNIT RESIDENTIAL PROPERTIES

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable appraisal review products include:

- Collateral Underwriter (CU) or Loan Collateral Advisor (LCA) with a Score of 2.5 or less. The Submission Summary Report (SSR) must be provided. While both may be run, only one is required. If both are run, they must be done at the same time and only one needs to have a passing score.
 - **Exclusions:** Not allowed for DSCR Cash Out Loans > 75% LTV, properties located in Memphis, TN or investment properties in Brooklyn, NY.
- House Canary AVM with an FSD maximum of 0.10 with a value of no more than 10% below the appraised value. An AVM is not permitted to override a desk or field review.
 - **Exclusions:** While an AVM will still be pulled and evaluated, it is not permitted to act as the appraisal review product on No Ratio, properties located in Memphis, TN or investment properties in Brooklyn, NY.
- Clear Capital Desk Review or Consolidated Analytics Collateral Analysis. A 10% tolerance is permitted. If the desk review value is more than 10% below the appraised value, a field or second appraisal must be obtained.
 - **Exclusions:** Not Permitted on properties located in Memphis, TN or investment properties in Brooklyn, NY.
- Field Review
- Second Full Appraisal

When a field review or second appraisal is obtained:

- The lesser of the two values will be used for qualifying
- The reports must be completed by different, independent appraisers

The following transactions require a second full appraisal:

- Loan amounts > \$2,000,000
- HPML purchase transactions subject to flipping. See [HPML section for details](#).

Geographic Field Review Requirements:

- When local geographic restrictions mandate a field review, the field review satisfies the secondary appraisal review requirement.
- If a second full appraisal is obtained in these restricted areas, a field review is not required.
- Geographic areas requiring a field review:
 - Memphis, TN
 - Investment properties in Brooklyn, NY

APPRAISAL REVIEW PROCESS – MULTI 5-8 UNIT PROPERTIES

- Commercial Broker Price Opinion (BPO) required based upon sales approach unless two full appraisals are provided.

- In Pennsylvania and North Carolina, a commercial evaluation product is used instead of a BPO.
- For Residential 5-8 Units, a Field Review is permitted, when available.
- When a BPO is used:
 - If the value is more than 10% below the appraised value, then the value of the BPO is used for LTV purposes.
- When a field review is used:
 - The lesser of two values will be used for qualifying
 - The report must be completed by different, independent appraisers

PROPERTY CONSIDERATIONS

MINIMUM PROPERTY STANDARDS

All properties must meet all the following requirements:

- Average or better than average condition.
- Contain a kitchen and a bathroom.
- Designed and available for year around residential use.
- Does not have any environmental hazard that would impact marketability.
- Free of all health and safety violations.
- Heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Public water and sewer or access to community or private well and septic meeting FNMA standards.
- Subject property is not in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property .
- Improvements constitute a legally permissible use of the land based on the zoning ordinance. Legal, non-conforming use is acceptable if the appraiser addresses any effect the non-conforming use has on the value and marketability of the property. Defer to FNMA for Coastal Tideline or Wetland laws.
- Subject property represents the "highest and best" use.
- Access to a public road, or when a private road exists, there is a permanent easement and enforceable agreement in place for the access and maintenance, unless the state has provisions defining the responsibilities of property owners for the maintenance of private streets.

ACCESSORY DWELLING UNITS (ADU)

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- Property must conform to all zoning laws and/or regulations.
- The ADU is not required to be "permitted" provided the appraiser indicates the improvements represent a legal use of the property and were completed in a skillful manner.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Property may be made up of any of the following, provided a minimum of two comparables with a similar set up are obtained:
 - Single Family Residence with one or multiple ADUs. Treat as SFR for qualification purposes.

- 2-4 Unit Property with one or multiple ADUs. Treat as a 2-4 Unit for qualification purposes.
- Multiple ADUs are eligible when the property is in a municipality allowing for such a set up and the appraiser specifically confirms compliance with local regulations.
- Accessory units must be substantially smaller than the primary dwelling or must be treated as a 2-4 Unit for eligibility purposes.
- If all the above are not met, the accessory unit must be given no value.

Rental Income from an ADU may be permitted as follows:

- Above ADU requirements have been met.
- Market Rents are documented on a FNMA Form 1007.
- Rental Income Requirements for the applicable program and qualification methods are met.

ADDITIONS WITHOUT PERMITS

If the appraiser notes that additions or modifications were made without required permits, the following requirements apply:

- The appraiser should comment that the unpermitted addition/modification appears to be done in a professional/ skillful manner.
- Property usage must conform to zoning laws and/or regulations.

DECLINING MARKETS

The appraiser must identify if the subject property is in a declining market.

- A 5% Max LTV reduction applies to properties in declining markets unless the LTV is 65% or less.
- See Program Matrices for full details and any further restrictions.

DEED RESTRICTIONS

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

Age Restricted Communities

Deed restrictions must be reviewed to ensure all the following requirements are met:

Appraisal supports property is common and typical for the market area.

- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

Limitations on Ability to Sell/Right of First Refusal

Any right of first refusal in the condominium project documents will not adversely impact the rights of a mortgagee or its assignee to:

- Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage,
- Accept a Deed or Assignment in lieu of Foreclosure in the event of Default by a mortgagor, or
- Sell or lease a unit acquired by the mortgagee or its assignee.

PROPERTY CONDITION

Property must be in average or better condition. Properties in C5 or C6 condition are not acceptable. Properties which are severely cluttered or unkempt may lead to unsanitary conditions, mold, or pest infestations and will be deemed unacceptable.

DSCR loans where the property condition is C4 will be evaluated to determine property's marketability and acceptance. In addition, the property is expected to be free of deferred maintenance.

Structural deferred maintenance is ineligible. Non-structural deferred maintenance on non-DSCR loans can be considered provided:

- The deficiencies are not excessive; and
- The deficiencies do not represent a health or safety concern; and
- The appraisal report is completed as-is with an appropriate adjustment for the current condition of the property.

For additional deferred maintenance guidance for condominiums, see [Projects in need of Critical Repair](#) for further details.

ESCROW HOLDBACKS

If permitted in the related Program, escrows for work to be completed may be considered on a case-by-case basis per Underwriter discretion.

On Correspondent Transactions, escrows for work to be completed are permitted as follows:

- FNMA Form 1004D is obtained showing all work is completed prior to loan delivery, and
- Evidence the escrow is closed prior to NQM Purchase; OR
- On new construction properties where the landscaping and final grading is not yet completed due to weather constraints, the loan will be purchased, and the final inspection is to be delivered upon completion of the work.

LAND VALUE AND ACREAGE

Acreage and land value must be typical and common for the subject's market.

- Maximum acreage permitted is 20 acres unless others restricted by the related Program.
- Investment property transactions are limited to 5 acres, except for DELTA PRIME (DSCR), DSCR No Ratio and GAMMA (DSCR Multi) 5-8 Unit loans which are capped at a maximum of 2 acres.

Special consideration should be taken for properties with land values that exceed 50% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area. See [Rural Properties](#).

RURAL PROPERTIES

A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- Photographs of the subject show a dirt road.
- Comparable are more than 5 miles away from the subject.

- Subject is in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and or comparable have lot sizes greater than 10 acres.
- Subject property and comparable have outbuilding or large storage sheds.

Websites such as the following will be reviewed to analyze whether the property should be classified as rural: <https://www.consumerfinance.gov/rural-or-underserved-tool/>. A review of the website will not automatically result in a rural designation, however it will allow a further evaluation of the market to determine if the appraiser's non-rural classification is justified.

Rural properties must comply with all the following criteria:

- Acreage includes road frontage and subject property.
- Property must not be agricultural or provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and like surrounding properties.
- Property cannot be subject to idle acreage tax benefit, tax abatements or other tax incentive program.
- Present use as per the appraisal must be the "highest and best use" for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.
- Property must be suitable for year round occupancy.

See Program Matrices for eligibility and LTV restrictions.

MIXED-USE PROPERTIES (PRIMARY RESIDENCE)

Properties that have a business use in addition to their Primary Residence use are allowed (i.e., property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office).

The following criteria must be met:

- The property must be a 1-unit single family dwelling used as a Primary Residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

The appraisal must address the following:

- Provide a detailed description of the mixed-use characteristics of the subject property.
- Indicate that the mixed-use property is a legal, permissible use of the property under the local zoning requirements.
- Report any adverse impact on marketability market resistance to the commercial use of the property; and
- Report the market value of the property based on the residential characteristics, rather than on the business use or any special business-use modifications that were made.

MULTIPLE DWELLINGS ON ONE LOT

- Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing, unless 2 or more like comparables are provided indicating the structure is typical for the market
- Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations.

- They must be typical and common within the subject's neighborhood.
- The subject property should be appraised as a single-family residence, however, may be considered a 2-4 Unit for LTV purposes depending on the nature of the additional structures. For further details, see [Accessory Dwelling Units](#).

MULTIPLE PARCELS

When a property consists of more than one parcel of real estate, the following requirements must be met:

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.
- Blanket Mortgages are not permitted.

NEW CONSTRUCTION

The following are required for all new construction properties:

- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable.
- Proposed improvements are ineligible.
- Certificate of Occupancy, when required per municipality
- Taxes must be based on the improved value. Unless otherwise documented from the title company, use 1.5% of the purchase price or the documented tax rate for qualifying.

SOLAR PANELS

Properties with solar panels are eligible for financing.

When solar panels are owned and financed and collateralized with a UCC lien on title, the following applies:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include any monthly obligation in the DTI.
- The value of the solar panel may be included in the appraised value, provided the panels cannot be repossessed for default on the financing terms.
- Include the balance of the solar panel lien in the LTV/CLTV ratio. If unable to obtain the current balance of the lien, include the original loan amount in the LTV/CLTV ratio. The UCC fixture filing must be subordinated with one of the following:
- Subordination Agreement
- UCC Termination. Debt obligation and LTV/CLTV must still consider the solar loan unless evidence is provided to verify the debt has been paid down to zero.

When solar panels are owned and financed without a UCC lien on title, the following applies:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement for the solar panel loan. Include

any monthly obligation in the DTI.

- Ensure the appraiser did not provide a contributory value for the solar panels.
- Do not include the panels in the LTV/CLTV ratio calculation.
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC lien was paid in full, otherwise the financed balance must be included in the LTV/CLTV.

A PACE (Property Assessed Clean Energy) loan allows for repayment of the solar debt through the homeowner's real estate tax bill. PACE loans may also be referred to as a HERO loan.

The following applies when a PACE loan exists:

- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.
- Any property tax statements that reflect PACE, HERO, or equivalent will require proof of payoff. If loan proceeds are used to pay off the lien, the loan is considered a Cash Out Refinance.

When solar panels are leased or covered by a power purchase agreement, the following applies:

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- A copy of the lease or power purchase agreement must be obtained.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
 - provide delivery of a specific amount of energy at a fixed payment during a given period, and
 - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

The lease or power purchase agreement must indicate that:

- any damage that occurs because of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
- the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
- in the event of foreclosure, the lender or assignee has the discretion to:
 - terminate the agreement and require third-party owner to remove the equipment.
 - become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

PROPERTY TYPES

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 Unit Multi-Family Properties*	Yes
Condominium (low-rise and high-rise)*	Yes
Non-Warrantable Condominiums*	Yes
Condotels *	Yes
Container Homes	No
Site Condominium	Yes
Modular Homes	Yes
Log Homes - Log exterior façade only with like comps, not true log cabins. Must also have fully functioning HVAC system, water source, gas or electric, and be suitable for year-round occupancy.	Yes
Mixed-Use Properties	Only as permitted under the Mixed Use Properties Primary Residence section
Assisted Living/Continuing Care Facilities	No
Baltimore City Row Homes	No
Boarding Houses	No
Co-operative Units (Co-op)	Yes (Delegated Correspondent only)
Farms or Hobby Farms	No
Leasehold Condominiums	No
Properties receiving tax abatements or incentives for farming	No
Properties located on islands not connected to the mainland by a bridge	Will be considered on a case-by-case basis
Manufactured Homes	Yes (Delegated Correspondent only)
Properties Subject to Rent Control Regulations eligible when the restriction is only due to limiting the increase of rents to a certain percentage per year	No
Unique Properties (Earth Homes, Barndominiums, Churches, Berm Homes, Dome Homes, etc.)	No
Timeshares	No
*Considered depending on Program.	

CONDOMINIUMS - GENERAL

GENERAL CONDOMINIUM REQUIREMENTS (CONDO)

It is important to note that Rockstone, uses the Fannie Mae Project Standards guideline as a baseline for its condominium project reviews, however certain guideline overlays may apply. Any project that is warrantable under Fannie Mae guidelines is eligible, except when Rockstone guidelines contradict FNMA, Rockstone guidelines shall control and supersede. Guidelines are subject to change at Rockstone's discretion.

A condominium project is one in which individual owners hold title to unit of air space in the project along with an undivided interest in the real estate that is designated as the "common area" for the project. The units in the project must be owned in fee simple, and the unit owners must have the sole ownership interest in and rights to the use of the project's facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

MAXIMUM CONCENTRATION EXPOSURE (CONDO)

- Rockstone's project exposure in condominium projects shall be \$5,000,000 or 20% of the total units in the project, whichever is lower.
- With sufficient condo project related compensating factors, the \$5,000,000 maximum may be waived by the NQM Condo Team. However, no loan shall be made for more than 20% of the total number of units in the project without an Exception Desk approval.

PROJECT INSURANCE (CONDO)

All Projects must meet all applicable Project Insurance requirements further detailed in the insurance section of guidelines. See [Insurance](#) section.

UNIT SQUARE FOOTAGE (CONDO)

A minimum unit square footage is not required; however, units must contain a full-size kitchen and kitchen appliances to be eligible for financing. In addition, similar sized comparables from competing projects must be provided to demonstrate market acceptance for units with < 400 square feet.

RIGHT OF FIRST REFUSAL / SUPERIOR LIEN RIGHTS (CONDO)

Project documents may not give a unit owner or any other party priority over the rights of the first mortgagee.

CONDO PROJECT TYPE DEFINITIONS (CONDO)

- Detached Condo Units (site condominium/land condominium); subject unit is built completely detached, resembling a single family residence on its own lot and does not share partition walls with any other unit the project, and the legal title to the unit is declared to be condominium unit.
 - Detached condominium units qualify for Project Review Waiver
 - The project may be comprised of solely detached units or a mix of detached and attached condominium units, so long as the subject unit transaction is a detached condominium.

- The project may be established or new.
- **Two(2) to Ten(10) Unit Condo Projects:**
 - Project must have no more than 10 units total and can be a mix of residential and commercial units. Note: 10 residential units and 1 or more commercial unit(s) does not qualify for Waiver of Project Review.
- **Project with More than Ten (10) units:**
 - Any project with more than ten (10) units, whether units are attached or detached.

ESTABLISHED VS NEW PROJECT (CONDO)

- Established project is a project in which all the following apply:
 - At least 90% of the total units in the project have been conveyed to unit purchasers.
 - The project is 100% complete, including all units and common elements, and the project is not subject to additional phasing or annexation.
 - Control of the HOA has been turned over to the unit owners.
- New Project is a project in which any of the following apply:
 - Less than 90% of units conveyed (sold and closed) to individual unit owners.
 - Developer is in control of the HOA.
 - Construction is not 100% complete including: buildings, "common area", and amenities or the project is subject to additional phase annexation or additional construction.

WARRANTABLE VS NON-WARRANTABLE (CONDO)

- A Warrantable Condominium project is one of which a warranty can be made by the Condo Specialist upon review of the condominium documents and loan file criteria that the condominium meets FNMA Guide requirements. This applies to both the project type and loan parameters.
- Unavailable projects in Fannie Mae's condominium database, Condo Project Manager (CPM), are automatically considered Non-Warrantable.
- Non-Warrantable Condominium project is one of which a warranty cannot be made to the FNMA Guidelines and therefore is "Non-Warrantable."
- Delegated Correspondents must clearly identify how the project has been reviewed during delivery.

REVIEW TYPES (CONDO)

- **Project Waiver of Review (FNMA Type V):**
 - Project's that meet the definition of *Detached Condo Unit or *2 to 10 condominium unit as described above.
 - Unit types used for condotel purposes do not qualify for waiver of project review and may be subject to Condotel requirements.
- **Warrantable Review of Project with More than 10 Units in the Project:**
 - Limited Review, FNMA Type Q (eliminated with applications on or after August 3, 2026)
 - Full Review Established, FNMA Type S.
 - Full Review New, FNMA Type R.
 - Fannie Mae Approved, FNMA Type T.
- **Non-Warrantable:**
 - New and Established Projects, including 2 or more units
 - Condotels

PROJECT REVIEW WAIVER

Detached / Site condominium

- Whether project consists entirely of detached (site) units or a mixture of both detached and attached condominium units, if the subject is a Detached Condo unit, a project review is not required, and subject is eligible for single-family dwelling LTV/CLTV.
- Detached Condo Units are subject to one-to-four unit Property Insurance Requirements (may also be covered by HOA Master Property Insurance Policy if HOA has provided coverage that meets requirements for the Detached Unit).
- HOA Questionnaire is not required.

2 to 10 Unit condominium projects will not require a project review provided the following are met:

- Cannot be categorized as unavailable in FNMA CPM
- Meets applicable condo insurance requirements
- Project is not a condominium hotel, houseboat, or timeshare or segmented-ownership project.
- Must not be part of a master association or larger development (5-10 unit projects). 5-10 Units Require a 5-10 Unit Questionnaire or similar confirmation that the project meets this requirement.
- 2-4 Unit Projects do not require an HOA Questionnaire.

PROJECT REVIEW EXPIRATION DATES (CONDO)

All questionnaires must be dated within 90 days of the time of submission to condominium desk.

- **Limited Review - Warrantable**
 - Per loan file, expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Full Review for Established - Warrantable**
 - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Full Review for New Projects - Warrantable**
 - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Non-warrantable - Established**
 - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.
- **Non-warrantable - New**
 - Expiration date is the earlier of 180 days prior to the note date or Master Policy Property Insurance Expiration Date.

INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the U.S. Securities and Exchange Commission.
- Leasehold condominiums.
- Timeshare, rental pooling, or condominium projects with restrictions on owner's ability to occupy the unit.
 - Condotels with a maximum occupancy term of 30 days per short term rental are permitted (unit deed must be a single deed and not fragmented).
- Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Fragmented or segmented ownership.
- Houseboat project.
- Manufactured Home Condominium projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or

housing needs.

- Multi-family units where a single deed conveys ownership of more than one, or all the units. Condominium Units with ADU's may be considered on a case-by-case basis.
- Affordable Housing units, units with resale restrictions
- A common-interest apartment or Tenants in Common Project:
 - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA (on new projects this applies when the developer intends to maintain control of amenities after project becomes Established per guideline definition).
 - Except in the case of a Condotel, where Developer is the Hotel Parcel Owner.
- Any project that has non-conforming zoning (cannot be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of Critical Repairs (see detailed section below).
- Any project currently under an evacuation order due to unsafe conditions.
- Any project with unfunded repairs totaling more than \$10,000 per unit.
 - Special Assessments and Loans are acceptable means to fund projects

The following additional requirements apply to projects with more than 10 units:

- Projects with significant deferred maintenance are not eligible, such as:
- Projects with a full or partial evacuation of the building to complete repairs for more than 7 days or an unknown period
- Projects with deficiencies, defects or substantial damage, or deferred maintenance that;
 - Are severe enough to affect the safety, soundness, structural integrity or habitability of the improvements.
 - Impedes the "safe and sound" functioning of one or more of the building's major structural or mechanical elements, including but not limited to; foundation, roof, load bearing structures, electrical systems, HVAC or plumbing.
- Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-inspections.
- A project that has a Building Recertification, or other Local Government Authority Mandated Repairs presently due, and HOA is actively working on repairs related to Engineer's and Inspection reports, may be eligible for lending if the HOA, Management, and its Engineer clearly demonstrate that there is no safety or structural soundness issues, and is safe for occupancy while repairs are ongoing. Review of the Inspection Report and determining the severity of the findings and repairs is subject to Condo Desk determination.
- See [Projects in Need of Critical Repair](#) section for more details.

PROJECTS IN NEED OF CRITICAL REPAIRS

Loans secured by units in condominium projects with significant deferred maintenance that affects the structural soundness, safety, or habitability or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible.

If the HOA questionnaire indicates that a report was completed within the last 3 years and the HOA, or HOA management company, indicates no safety issues report, or repairs have been completed, related requirements for the project in need of critical repairs may be waived.

Documentation required for review:

- Engineer's or Inspection Report conducted within the last 3 years.
- Engineer's Letter of Explanation indicating whether the project is safe for occupancy while repairs are on-going.
- Contractor's bid, with cost estimate and description of proposed repair methods
- Detailed Status of Repairs Letter, completed by Engineer, Contractor or HOA Management Company, indicating the following:
 - All repairs that have been completed to date
 - All outstanding / not yet completed repairs; confirm whether any outstanding repairs are structural or safety related.
 - Estimated time for completion of repairs.

These projects are ineligible until the required repairs to cure unsafe conditions have been made and documented. Acceptable documentation may include an updated engineer or inspection report, city inspection showing passed, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.

Significant deferred maintenance may include deficiencies that meet one or more of the following criteria:

- Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period.
- The project has deficiencies, defects, substantial damage, or deferred maintenance that:
 - Are severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements.
 - Impedes the "safe and sound" functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.

Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible (this refers to projects that attempted work, and local governing authority failed the work upon inspection. To the contrary, projects that are actively working on mandated repairs per requirements in engineer's report may be eligible under guidelines and/or an exception if necessary.

These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property.

Also, if damage or deferred maintenance is isolated to one or more units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated; damage from a small fire impacting the interior of a specific unit; mandated balcony repairs or elevated elements that do not impact our subject unit; or subject unit's building repairs have been completed even though repairs are outstanding in different portions or other buildings in the project. However, if the subject property unit is affected, our standard requirements for property condition apply.

SPECIAL ASSESSMENTS

Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.

The loan file must be documented with the following (answering on the HOA questionnaire

acceptable, additional letter of explanation may be requested):

- The reason for the special assessment.
- The total amount assessed and repayment terms.
- Evidence to support no negative impact to the financial stability, viability, condition, and marketability of the project.
- (Underwriter to determine) borrower qualification with any outstanding special assessment payment.

The financial documents of the HOA may be required for review to confirm the association can fund any repairs.

If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs guidance for projects with Critical Repairs applies. Additionally, If the client or appraiser indicates there is an adverse impact, the project is ineligible.

INSPECTION REPORTS

If a structural, electrical, and/or mechanical inspection was completed within 3 years of the project review, a copy of the report must be provided, however may be waived if HOA indicates all required repairs indicated in the report are 100% complete. The report cannot indicate any critical repairs are needed, and no evacuation orders are in effect.

If the inspection report indicates ongoing repairs, a letter from the engineer indicating the project is safe for occupancy while the repairs are being completed should be provided.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. A review of the engineer's Phase II, completion report, or letter from an authorized person/ entity acting on behalf of the HOA is needed to determine if the repairs are completed. Findings must state Safety, Soundness, Structural Integrity, or Habitability concerns of the project are satisfied.

WARRANTABLE CONDOMINIUMS

When a Program indicates the condominium must be warrantable, or if condominium project is eligible for warrantable review, FNMA Condo Guidelines must be followed to ensure warrantability.

WARRANTABLE CONDOMINIUM INSURANCE REQUIREMENTS

Project must meet all applicable insurance requirements as defined in Fannie Mae Selling Guide Subpart B7, Insurance.

LIMITED REVIEW AND FNMA APPROVED PROJECTS – WARRANTABLE

MINIMUM DOCUMENTATION REQUIREMENTS – WARRANTABLE LIMITED REVIEW

- HOA Questionnaire.
- Master Insurance Policy.

FNMA APPROVED PROJECTS, TYPE T - WARRANTABLE

- Project must not have any Critical Repairs or Ineligible Deferred Maintenance.
- Project must not have litigation that is not considered a minor matter.
- Project Master Insurance Policy must continue to meet Fannie Mae Insurance guidelines.

LIMITED REVIEW ELIGIBILITY REQUIREMENTS, PROJECT TYPE Q - WARRANTABLE

- **Application must be dated prior to August 3, 2026 as FNMA as retired the limited review option.**
- Project must meet definition of Established Project.
- Project is not an ineligible project per FNMA Guidelines, B4-2.1-03.
- General Liability Insurance and Fidelity Bond Insurance waived for Limited Review.
- Loan Criteria, Occupancy type and related LTV must meet FNMA's occupancy and LTV requirements for Limited Review Eligibility; Geographical Restrictions Apply:
 - FNMA Limited Review Process
 - FNMA Geographical Restrictions
- Investor concentration waived for limited review.
- Commercial space square footage cannot exceed 35% of the project or building in which the subject is located.
- Amenities: HOA or affiliated association must own amenities.
- Delinquency count: must demonstrate that no more than 15% of units are 60+ days delinquent on special assessments only.
- Single entity ownership allowed up to 20% for projects with 21 or more units or a maximum of 2 units for projects with 5 to 20 units.
- Project must not have an outstanding Building Recertification, or Local Government Mandated Repair. Project must not have failed a mandated inspection or repair.
- Litigation in which HOA is named as a party must meet Fannie's definition of a minor matter.

LIMITED REVIEW AND OCCUPANCY - WARRANTABLE

- Established Condo Projects (For Projects outside of Florida) with 5+ attached units
 - Maximum LTV/CLTV/HCLTV Ratios

▪ Principal residence	85% / 85% / 90%
▪ Second home	75% / 75% / 75%
▪ Investment property	75% / 75% / 75%
- Established Condo Projects (Florida Projects) with 5+ attached units
 - Maximum LTV/CLTV/HCLTV Ratios

▪ Principal residence	75% / 90% / 90%
▪ Second home	70% / 75% / 75%
▪ Investment property	70% / 75% / 75%

FULL REVIEW - WARRANTABLE

MINIMUM DOCUMENTATION – WARRANTABLE FULL REVIEW

- HOA Questionnaire
- Budget for Current Fiscal Year

- Balance Sheet dated within the past 90 days.
- Master Insurance Policy including property, fidelity/crime, and general liability.
- Flood Insurance (if applicable).
- HO- 6 policy if master policy "is not walls in".

FULL REVIEW ELIGIBILITY REQUIREMENTS - WARRANTABLE

- Project must not be an ineligible project per FNMA guides B4-2.1-03.
- Budget must demonstrate a minimum 10% reserve requirement. Reserve study may be provided for consideration of sufficient reserve funding when the 10% is not allocated in the current fiscal year's budget. Qualifying utility expenses may be removed from reserve calculation. **When using a reserve study instead of a budget, the highest recommended reserve allocation in the report must be used. Baseline funding method is no longer acceptable.**
- Contiguous Land: Project must be built on contiguous land.
- Amenities: HOA or affiliated HOA must own amenities. Parking may be owned by a third party, so long as third party is not the original developer, and parking may be subject to a license agreement.
- Commercial Space: square footage cannot exceed 35% of the project or building in which the subject is located .
- Delinquency Count: must demonstrate that no more than 15% of units are 60+ days delinquent in regular dues and/or special assessment.
- Single Entity Ownership: allowed up to 20% for projects with 21 or more units or a maximum of 2 units for projects with 5 to 20 units.
- Project must not have an outstanding Building Recertification, or Local Government Mandated Repair. Project must not have failed a mandated inspection or repair.
- Litigation: in which HOA is named as a party must meet Fannie's definition of a minor matter.

NEW PROJECT DOCUMENTATION REQUIREMENTS - WARRANTABLE

Additional Required Documentation:

- CC&R's/Declaration of Condo/Master Deed.
- Bylaws/Declaration of Trust.
- Articles of Incorporation, if applicable.
- Rules and Regulations, if applicable.
- Public Offering Plan or Prospectus, if applicable.
- Phasing Schedule, if Applicable.
- Additional document requests may be needed as determined by the underwriter.

NEW PROJECT ELIGIBILITY REQUIREMENTS - WARRANTABLE

In addition to the Full Review Eligibility Requirements listed above, project must meet the following criteria:

- Project must have been created in accordance with all local and state laws.
- Governing Documents must evidence all Mortgagee protections required by FNMA on PERS form 1054 (form completion is not required but is a quick reference tool for required language for the governing documents).
- Fannie Mae PERS Approval required for Non-Gut Rehab Condo Conversions.
- Pre-sale 50% per subject legal phase, consisting of Primary and Secondary Occupancy Type purchases.

- Subject Legal Phase construction must be substantially complete. Substantial Completion means building exterior is weather tight, interior dry wall is up with no exposed framing, and is waiting for buyer selections for fixtures, cabinets, wall covering and flooring.
- Subject Legal Phase Common Area Construction is 100% complete, or Developer provides "common area" completion bond.
- Amenities within the Subject Legal Phase must be 100% complete.

NON-WARRANTABLE CONDOMINIUMS

Condominiums listed with a status of "unavailable" in Condo Project Manager (CPM) are not allowed, unless the "unavailable" reason is for a characteristic explicitly deemed acceptable as per these guidelines.

- This requirement does not apply to Condotel Projects.
- Exceptions may be considered for projects that are unavailable and characteristics are not expressly acceptable per the below guidelines.

MINIMUM DOCUMENTATION REQUIREMENTS – NON-WARRANTABLE REVIEW

- HOA Questionnaire.
- Master Insurance Policy.
- Non-Warrantable Condo Reviews include varying degrees of complexity. Additional documentation may be requested to complete the review and determine eligibility.

NON-WARRANTABLE CONDO ELIGIBLE ATTRIBUTES

Non-warrantable condominiums are eligible with the following attributes:

- Max Concentration, when a project is between 5 and 20 units in size, one owner may finance two units in the project.
- Commercial space square footage allowed up to 50% of total project, or building in which the subject is located .
- Delinquency Count: Must demonstrate that no more than 25% of units are 60+ days delinquent in regular dues and/or special assessment.
- Investor concentration allowed up to 70%. A higher percentage is permitted when the subject transaction is an Investment Property.
- The project developer may be in control of the condominium association provided the Master Agreement allows the homeowners to take control upon either a predetermined percentage of unit sales or within a defined period.

SINGLE ENTITY OWNERSHIP – NON-WARRANTABLE

- Single entity ownership allowed up to 49% of the project; except for Condotel Projects where the Developer of Condotel may own a greater percentage of the units for rental income purposes.
 - The following may be excluded from the single-entity ownership calculation:
 - Units owned by the project sponsor or developer and are vacant and are being actively marketed for sale; or
 - Units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including subject to non-eviction rent regulation codes), or units held by

- higher-education institutions for a workforce housing program.
- Exceptions may be considered for Single Entity, which owns 50% or more of the units. For exception consideration, provide the following information:
 - HOA letter of explanation stating if the single entity is the developer, a REIT, a private investor or a sponsor.
 - Documentation to support whether the single entity is current on all HOA dues payments. If not, provide the delinquency information.
 - Documentation on the single entity's intent on selling any of the units currently owned. If they intend on selling any units, provide the marketing strategy.
 - Confirmation as to whether or not the subject unit is one of the single entity owned units.
 - Clarification as to what the current occupancy type of the subject unit is.
 - Evidence as to whether the Single Entity has a Right Of First Refusal. If so, clarify if the ROFR is actively being exercised.

THIRD PARTY OWNED AMENITIES, MANDATORY CLUB DUES – NON-WARRANTABLE

- Subject Units in areas such as golf courses, with pool clubs, or other amenities that are subject to a mandatory membership fee are acceptable. The fees must be included in the borrower's debt to income ratio. Note: Developer retained ownership amenities are not acceptable for Non-Warrantable Review types.
- These restrictions do not apply to Condotels

PROJECTS IN LITIGATION – NON-WARRANTABLE

- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature, do not affect the marketability of the project units, and potential damages do not exceed 25% of HOA reserves, or documentation that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.

COMBINED UNITS – NON-WARRANTABLE

- Projects with Combined Units may be eligible under non-warrantable when HOA has not amended governing documents:
 - Related work must be permitted, with final Certificate of Occupancy issued from the city.
 - Related units must be evidenced on one title deed.
 - Related unit deeds cannot be partially released from mortgage or deed of trust.

NEW PROJECTS - NON-WARRANTABLE

Presale: units under contract or sold and closed with title conveyed.

- Presale must be 25% of Owner Occupied or 2nd Home Occupancy types for the Subject legal phase the first 18 months of marketing.
- Project must have been marketed for less than 18 months. Start of marketing date shall be the day marketing of sales began, or no later than the date of the first purchase contract for sale.
- Presale must be 30% Owner Occupied and 2nd Home Occupancy types for subject legal phase and 40% Presale overall within the first 24 months. of marketing. Definition of

marketing period as defined above.

- Presale must be 50% overall after 24 months. of marketing. Developer must meet Single Entity Guidelines above.
- Projects with Rent Control or other local laws that slow the presale of units will be considered on a case-by-case basis.
- Subject Legal Phase construction must be substantially complete. Substantial Completion means building exterior is weather tight, interior dry wall is up with no exposed framing, and is waiting for buyer selections for fixtures, cabinets, wall covering and flooring.
- Subject Legal Phase Common Area Construction is 100% complete, or
 - Developer provides the "common area" completion bond.
 - Developer evidences funds in escrow dedicated to the "common area" completion.
- Amenities within the Subject Legal Phase must be 100% complete.
- Condo Conversion that is Non-Gut-Rehab and conversion took place within the last 18 months:
 - Subject to pre-sale requirements.
 - Subject to Single Entity requirements. **Note that Developer / Converter is not considered a single entity owner while converting units when only a portion of the old pre-conversion units have been vacated.**
 - Engineer's Report and evidence of recommended repairs must be provided.
 - Reserve Study must be provided.

INSURANCE REQUIREMENTS - NON-WARRANTABLE

See [Non-Warrantable Insurance](#) section for details.

CONDOTELS

CONDOTEL GENERAL REQUIREMENTS

- Available with BETA, DELTA (DSCR) and ZETA (Foreign National) Programs. Refer to the related Program Matrices for loan amount, LTV Limits and additional eligibility requirements.
- See the Condominium Section of the Underwriting Guide for further requirements not detailed below.
- The property MUST be in a resort area or affiliated with a national hotel chain.
- A minimum unit square footage is not required; however, units must contain a full-size kitchen and kitchen appliances to be eligible for financing. In addition, similarly sized comparables from competing projects must be provided to demonstrate market acceptance for units with < 400 square feet.
- Must have at least one separate bedroom.
- Exceptions considered for studios on a case by case basis.

CONDOTEL IDENTIFICATION CRITERIA

A project may be classified as a Condotel if it possesses one or more of the following characteristics:

- The project is managed and operated as a hotel or motel, even though the units are individually owned.
- The project name includes "hotel," "motel," "resort," or "lodge", unless the name is related to historical preservation of a converted project.
- The presence of a registration desk or onsite services offering daily, weekly, or monthly rentals. Note that short term rental ability alone does not mandate a Condotel

classification unless accompanied by hospitality elements (ex. front desk and/or housekeeping service).

- The project is a conversion of a former hotel, motel or other transient use facility.
- The property is marketed or rated as a hotel/resort by third party travel agencies, booking platforms, or search engines.

DETACHED CONDO / SITE CONDO

- The subject unit must be a single family dwelling with no shared walls, including adjoining garages.
- Site condos are eligible provided the appraiser demonstrates market acceptance within the subject's market area.
- A Condominium Project Questionnaire is not required.
- Appraisals may be reported on FNMA Form 1073 or 1004. When Form 1004 is utilized, the appraiser must provide a project description, detail HOA fees, and comment on the quality of project maintenance.
- If the unit is covered by a Master Insurance Policy, standard Master Policy Insurance requirements apply. If the unit maintains an individual policy, standard 1-4 family insurance requirements apply and verification of a Master Insurance Policy is not required.
- Underwriters are responsible for review of Detached/Site Condominiums.

COOPERATIVES (CO-OP)

A Co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The file must contain evidence regarding the project's compliance with Section 216 ([FNMA Guides B4-2.3-02, Co-op Project Eligibility \(08/06/2025\)](#) for more specifics).

If the co-op project does not meet Section 216 requirements, Rockstone will not purchase the Co-op loan.

CO-OP PROJECT REQUIREMENTS

- The Co-op housing project must be designed primarily for residential use.
- Must consist of two (2) or more units and be in an area that has demonstrated market acceptance for the co-op form of ownership as reflected by the availability of similar comparable sales for Co-op units in the market area.
- All projects must be owned fee simple.
- The project premises must be free and clear of liens and encumbrances.

CO-OP CALCULATING THE LTV RATIO

- The method for calculating the LTV ratio for a Co-op loan is based on whether the borrower assumes their pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes their pro rata share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of
- The sales price for the Co-op unit (unencumbered by the unit's pro rata share of the Co-op project's blanket mortgage(s)), or
- The appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's pro rata share of the project's blanket mortgage(s)).
- In those markets where the borrower does not assume their pro rata share of the blanket mortgage, then the LTV ratio is determined by dividing the original loan amount by the

lower of:

- The sales price for the Co-op unit, or
- the appraised value of the Vo-op stock or shares and the related occupancy rights.

CO-OP LOAN DOCUMENTATION REQUIREMENTS

In addition to standard loan delivery documentation

- Security Agreement Against Stock Certificate
- Stock Certificate
- Stock Power (1. Borrower to Member and two. Member to Correspondent)
- Proprietary lease
- Assignment of Proprietary Lease (1. Borrower to Member and 2. Member to Correspondent)
- UCC-1
- UCC-3 (Extension)
- UCC-1 (Assignment)
- Recognition Agreement
- Fully completed, signed and dated FNMA Form 1074 (Co-op Questionnaire).

DELEGATED CORRESPONDENT RESPONSIBILITIES (CO-OP)

- The Delegated Correspondent is responsible for determining that the co-op corporations hold title to the property of the co-op project, including dwelling units. Co-op projects where the borrower (not the co-op corporation) owns his or her dwelling unit in the project will not be eligible.
- Co-op share loans in these projects are commonly referred to as "land-home" or "land-lease" Co-op projects and are not acceptable.
- The Co-op corporation must have good and marketable title to the property, including the dwelling units and amenities.
- Newly constructed or conversion of existing buildings are allowed.
 - All units, "common areas," and facilities within the project must be 100% complete.
 - The project cannot be subject to additional phasing or annexation.
 - All construction and rehabilitation for the project must be completed in a professional manner.
 - Manufactured housing is ineligible.
- Stock, share, or other contractual agreements evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.
- The project's most recent operating budget audited financial statements, or corporate Tax Returns must be consistent with the nature of the project, provide for adequate cash flow to service the current debt and operating expenses, and must provide for adequate replacement and operating reserves.
 - If the most recent budget is not available, the lender may rely on a review of the Co-op corporation's most recent audited financial statements or corporate Tax Returns to determine that the financial requirements in this section have been met.
 - The project must have a good financial record, with no more than 15% of the owners being more than 60 days delinquent in the payment of their financial obligations to the Co-op corporation.
- If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three (3) years, the lender

must evaluate the impact the expiration of such benefit will have on the project.

- If the benefit is scheduled to expire within three (3) years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes. The units in the project must be owned in fee simple.
- The Co-op corporation must have the sole ownership interest in the project's facilities, common elements, and limited common elements, except as noted below.
- Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:
 - A description of the shared amenities subject to the arrangement;
 - A description of the terms under which unit owners in the project may use the shared amenities;
 - Provisions for the funding, management, and upkeep of the shared amenities; and
 - Provisions to resolve conflicts between the residential projects regarding the amenities.
 - Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.
- The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.

MANUFACTURED HOUSING

- The home must be at least 750 square feet and 20 feet wide
- The home must be constructed to the "HUD Code" i.e., the federal manufactured home construction and safety standards for manufactured housing,
- The home must be on a permanent chassis, installed on a permanent foundation system, and titled as real property.
- The home may not be older than 15 years old.
- The home may not need repairs of more than 5% of the property value (per the appraisal).
- The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit.
- The home must not be subject to a ground lease or located on leased land.
- The sales price of a new manufactured home may include bona fide and documented costs associated with transportation, site preparation, and dwelling installation at the site.
- Any post manufacturing add-ons or modifications that are permanently attached to the subject property require a structural inspection.

DISASTER AREAS

Appropriate steps must be taken to identify areas impacted by disasters to ensure the subject property has not been adversely affected. The Disaster Policy applies to properties located in FEMA declared disaster areas in which individual assistance has been granted, which can be found on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring in and around the subject

property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

Damage to the subject property must meet [Property Condition](#) requirements or be remedied and reinspected by the appraiser.

PROPERTY APPRAISED PRIOR TO DISASTER INCIDENT

If the appraisal effective date is prior to the disaster incident, the following documentation is required:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent); or
- An exterior inspection completed by licensed third-party professional:
 - Exterior Inspection must certify the condition of the subject property and identify any impact to habitability or marketability related to the named disaster.
 - Inspection report must include photographs (the front, street view, and any damage to subject property).
 - Inspection report and evidence of inspector licensing must be retained in loan file.

PROPERTY APPRAISED AFTER DISASTER INCIDENT

When the appraisal effective date is after the disaster incident, no additional documentation is required.

DISASTER INCIDENT OCCURS AFTER CLOSING, PRIOR TO FUNDING

If the disaster incident occurred after closing, the loan is ineligible for purchase or funding until one of the following is received certifying no damage to the subject property:

- Clear Capital Post Disaster Inspection Report (PDI or equivalent) that names the disaster that required the inspection; or
- Appraisal Update and/or Completion Report (FNMA Form 1004D) that names the disaster that required the report.

DISASTER EFFECTIVE TIME PERIOD

Guidelines for disaster areas should be followed for 60 days from the incident period ending date or the date the adverse event occurred, whichever is later.

PROPERTY INSURANCE

HAZARD INSURANCE

MINIMUM HAZARD INSURANCE COVERAGE

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion. Required perils include:

- Fire or lightning
- Explosion
- Windstorm (including named storms)
- Hail
- Smoke
- Aircraft

- Vehicles
- Riot or civil commotion

LOSS SETTLEMENT

The coverage must provide for claims to be settled on a replacement cost basis with the exception of roofs. Roofs must be insured, but do not have to be insured on a replacement cost basis. Insurance on an Actual Cash Value basis for personal property and structures that are not buildings is acceptable.

DETERMINING THE AMOUNT OF REQUIRED HAZARD COVERAGE

Hazard insurance coverage should be in the amount of the lesser of:

- The unpaid principal balance of the mortgage or
- 100% Replacement Cost Coverage as stated on the policy declaration page.

DEDUCTIBLE AMOUNT

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

EVIDENCE OF HAZARD INSURANCE

Policy must be effective for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Blanket Policies are permitted provided the subject property's coverage can be determined and is sufficient.

Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number (NA on a binder)
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible.
- Loss payee clause as applicable
- Signed and dated by agent.

OPTIONAL COVERAGE

Hazard insurance policies may include optional coverage(s) which are acceptable but are not

required. For example, a “homeowners” or “package” policy is acceptable if any part of the coverage that exceeds the required coverage is not obligated for renewal.

RENT LOSS INSURANCE (DSCR)

Rent Loss Insurance for the subject property is required and must equal at least 6 months of PITIA. Blanket policies covering the subject property are eligible. Please see DELTA PRIME (DSCR) and DELTA (DSCR) Program Matrices for waiver option.

CONDOMINIUM AND PUD PROJECT INSURANCE REQUIREMENTS

CONDO PROJECTS

The master property or flood insurance policy must designate the HOA as the named insured. If the condominium’s legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including trustee, as the named insured.

PUD PROJECTS

If the PUD’s master insurance policy covers all the residential buildings in the project, follow coverage for units in a condominium project. The master property or flood insurance policy must designate the HOA as the named insured.

COVERAGE REQUIREMENTS

- The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, a policy that includes the “broad form” covered causes of loss is acceptable.
- If the master policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone policy which provides adequate coverage for the limited or excluded peril.
- Required perils include:
 - Fire or lightning
 - Explosion
 - Windstorm (including named storms)
 - Hail
 - Smoke
 - Aircraft
 - Riot or civil commotion
 - Vandalism
 - Sprinkler leakage
 - Sinkhole Collapse
 - Volcanic action
 - Falling objects
 - Weight of snow, ice or sleet
 - Water damage
 - **Wildfires**

LOSS SETTLEMENT

- The policy must be provided for claims to be settled on a replacement cost basis with the exception of roofs. Roofs must be insured, but do not have to be insured on a replacement cost basis.

SPECIAL COVERAGE REQUIREMENTS

The following special coverage requirements apply to both warrantable condominiums and PUD Master Insurance Policies.

- Building Ordinance or Law Coverage: the coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. Coverage is not required if it is not obtainable in the insurance market to the association. When required, the coverage must include:
 - Coverage A: loss to the undamaged portion of a building,
 - Coverage B: demolition costs, and
 - Coverage C: increased cost of construction.
- Boiler and Machinery/Equipment Breakdown Coverage: this coverage is required if the project development has central heating or cooling. The coverage may be included in the property coverage form, obtained as an endorsement to the master policy, or the HOA may purchase a stand-alone policy. This coverage is not required when each unit is metered individually, or with evidence that coverage is not obtainable to the HOA in the insurance market.
 - When required, the amount must equal the lesser of \$2m or the replacement cost value of the building(s) housing the boiler or machinery.

REQUIRED COVERAGE AMOUNT

The Master Property Insurance Policy coverage amount must equal at least 100% of the estimated replacement cost value of the project improvements, including common elements and residential structures.

Any of the following may be relied on to document the coverage amount is sufficient:

- Guaranteed Replacement Cost Coverage, or its equivalent;
- Extended Replacement Cost, or its equivalent;
- A Replacement Cost Value estimate provided by the insurer;
- The project's insurance risk appraisal; or
- A statement from the insurer or other applicable professional with appropriate expertise to make such a determination.

POLICIES COVERING MULTIPLE PROJECTS

Acceptable policies must provide coverage for either an individual project or multiple affiliated projects.

Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets the defined requirements.

- If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to the defined coverage amounts. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master

property insurance requirements for project developments must be met.

DEDUCTIBLE AMOUNT

The maximum deductible for the following policies is 5%; however, a deductible of up to 10% is permitted on non-warrantable projects when the HOA budget is sufficient to cover the deductible.

- Policies covering the common elements in a PUD or Condo Project,
- Losses related to individual PUD units covered by a blanket policy for the project,
- Separate wind-loss policies,
- Blanket policies that cover both the individual unit and the common elements.

GENERAL LIABILITY COVERAGE

Project liability insurance requirements of \$1,000,000 per occurrence is required with the exception of:

- Projects that qualify for a project waiver.

FIDELITY BOND COVERAGE

Fidelity bond coverage is required for condominium projects over 20 units:

- Warrantable Project
- New Projects

When required, the coverage must be at least equal to the greater of 3 months HOA dues or the minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

CO-INSURANCE COVERAGE

Coinurance Clause: 80/90/100% coinsurance clause is acceptable when an Agreed Amount or Agreed Value Endorsement is included in the policy that waives the coinsurance penalty that would normally be assessed at the time of a claim or confirmation is received that the HOA's Master Insurance Policy is covered at 100% of replacement cost value. When required, the coverage must be at least equal to the greater of 3 months HOA dues or the minimum required by state law. Coverage is not required when the calculated amount is \$5,000 or less.

- Warrantable Projects
- Non-Warrantable Projects

NON-WARRANTABLE CONDO INSURANCE ALLOWANCES

- Deductibles greater than 5% and equal to or less than 10% are permitted when the HOA budget is sufficient to cover the deductible.
 - Budget must demonstrate that Reserve allocation is 10% or more.
 - or Balance Sheet must demonstrate that potential cost of deductible is equal to or less than 50% of HOA's funds held in Reserve Accounts
- Deductibles Charged Per Unit:
 - Per unit deductible for any Peril, where per unit cost of deductible exceeds 5% of the face value of the insurance coverage amount, is acceptable when Borrower's HO6 Insurance can provided the coverage:
 - Property Coverage shows that Peril type with per unit deductible is covered at an equal or higher amount (for example, Water Peril deductible is \$50,000

- per unit on the master policy, therefore HO6 must cover Water Peril of at least \$50,000 or more).
 - Loss Assessment Coverage to be provided in an amount equal to per unit deductible amount (in same example, Loss Assessment coverage is provided on HO6 policy at \$50,000).
- Named Windstorm and Hurricane Coverage:
 - The following states must demonstrate Named Windstorm coverage at full replacement cost value:
 - Alabama
 - Florida
 - Georgia
 - Hawaii
 - Louisiana
 - Mississippi
 - North Carolina
 - South Carolina
 - Texas
 - Virginia
 - Where an Insurance Provider can demonstrate that Named Windstorm or Hurricane coverage is not typical for the geographic region separate specific Named Windstorm and Hurricane coverage requirements are waived, or
 - Insurance Provider can provide a Risk Model Assessment demonstrating that a lower coverage amount is sufficient to separate specific Named Windstorm and Hurricane coverage requirements can match the risk model.
- Master Insurance Policies covering multiple projects:
 - Pooled Policies; Policies with unaffiliated projects covered under one policy program. Except as described below, unaffiliated projects may not share a master property insurance policy.
 - Policy demonstrates that it provides Replacement Cost sufficient to rebuild the project in the event of a total loss
 - Provided Schedule of Locations and Values to determine eligibility:
 - Amount of coverage dedicated to subject unit Project
 - Coverage amount is not shared with any other property (i.e., policy amount is \$1B and covers properties valued at \$1B altogether. If policy amount is \$1B and total properties covered are valued more than \$1B, policy is ineligible).
 - If the project is ineligible, per the example above, exception may be considered. Consideration documentation required: Entire Schedule of Locations and Values, a detailed description of how the policy settles claims per loss claim event, and whether coverage depletes or is available for each loss claim event.

INDIVIDUAL PROPERTY INSURANCE REQUIREMENTS FOR A UNIT IN A PROJECT DEVELOPMENT

DETERMINING WHEN COVERAGE IS REQUIRED

The borrower must have a unit owners property insurance policy when:

- Any portion of the interior of the unit or improvements to the unit are not covered by the master property insurance policy, or
- The master property insurance policy includes a per unit deductible.

COVERAGE SUFFICIENCY

The minimum amount of coverage required for a unit owners property insurance policy must be at least equal to the greater of:

- An amount sufficient to cover any portion of the interior of the unit or improvements to the unit not covered by the master property policy in order to restore the unit to its condition prior to a loss event; or
- The amount of the per unit deductible, if the master property insurance policy has a per unit deductible.

Coverage amount sufficiency should be based on the best information known or available, which may include information obtained from the borrower in collaboration with the insurer or insurance agent, the HOA or co-op legal documents, or other professional with appropriate expertise to make such a determination.

REQUIRED PERILS

If the Master Policy includes a per unit deductible applicable to a specific required peril, the unit owners property insurance policy must include coverage for that peril.

LOSS SETTLEMENT

Coverage must be provided on a replacement cost basis.

DEDUCTIBLE AMOUNT

The maximum deductible for all required property insurance perils is the greater of:

- 5% of the property insurance coverage amount, or
- \$2,500.

FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas).

- Properties in Flood Zone A or V must be in a community which participates in the FEMA Program to be eligible for financing. Rockstone aligns with Fannie Mae on Flood Insurance, and it is only required when a mortgage loan is secured by a property located in:
 - A Special Flood Hazard Area (SFHA), or
 - A Coastal Barrier System (CBRS) or Otherwise Protected Area (OPA)

FLOOD CERTIFICATE

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

Flood insurance requirement can be waived if:

- Subject property improvements are not in Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- The Flood Certificate, Section B4 "Flood Zone" field is marked as "None" and Section B5 "No NFIP Map" is checked (true); and the "No" box in Section D "Determination" is checked validating the property is not in a FEMA flood zone containing the letters A or V; or

- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

MINIMUM FLOOD INSURANCE COVERAGE

The minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements.
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

ACCEPTABLE FLOOD INSURANCE POLICIES

Flood insurance policy must be one of the following:

- A standard policy issued under NFIP; or
- A policy issued by a private insurer if the terms and amount of coverage are at least equal to that provided under a NFIP policy based on a review of the full policy issued by the private insurer.

PROJECT FLOOD INSURANCE REQUIREMENTS

- The flood policy for a PUD or condominium project must cover at minimum the subject unit's building and any common element buildings and any other common elements and property, including machinery and equipment that are part of the building.
- The amount of flood insurance coverage for a PUD or condominium project should be at least equal to the lesser of 80% of the replacement cost value or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP) per unit.

DEDUCTIBLE AMOUNT

The maximum allowable deductible is the maximum available from the NFIP, which is currently \$10,000. The maximum allowed deductible for a PUD or condominium project is \$25,000.

EVIDENCE OF FLOOD INSURANCE

Flood insurance must be maintained throughout the duration of the loan. If definitive evidence of flood insurance is not available at closing, the following may be used:

- Completed and executed NFIP application with a copy of the borrower's premium check, the insurance agent's paid receipt, or the final settlement statement reflecting the flood insurance premium paid at closing.
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy by the property seller to the borrower.
- Agent-executed NFIP Certification of Proof of Purchase of Flood Insurance

Evidence of Insurance must provide the following information:

- Names of borrowers reflect the same as the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number
- Loan Number
- Name of insurance company

- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount and deductible
- Coverage amount
- Loss payee clause as applicable
- Signed and dated by agent.

NAMED INSURED FOR PROPERTY AND FLOOD INSURANCE

- 1-4 Unit Properties or Individual Units in a Project Development
 - The individual property or flood insurance policy must name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and the ability to receive benefits is not impaired.
- Condo Projects
 - The master property or flood insurance policy must designate the HOA as the named insured. If the condominiums legal documents permitted the master property or flood insurance policy can specify an authorized representative of the HOA, including its insured trustee, as the name insured.
- PUD Projects
 - The master property or flood insurance policy must designate the HOA as the named insured.

NOTICE OF CANCELLATION FOR PROPERTY INSURANCE

The policy must require the insurer to notify in writing the named insured and mortgagee(s) before it cancels the policy.

MORTGAGEE / LOSS PAYEE CLAUSE

LOSS PAYEE CLAUSE

- **For all loans except properties in New York:**
Rockstone Wholesale ISAOA/ATIMA
444 W Lake Street, Suite 1700
Chicago, IL 60606
- **For properties located in New York:**
Rockstone Wholesale ISAOA/ATIMA
444 W Lake Street, Suite 200
Chicago, IL 60606

MORTGAGEE CLAUSE REQUIREMENTS BY PROPERTY TYPE

1-4 Unit Properties

- The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable.

Unit in a project development

- If a unit owner or shareholder maintains an individual property insurance policy (as

indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with Determining if a Master Property Insurance Policy is required ([B7-3-03, Master Property Insurance Requirements for Project Developments](#)) for interior coverage, it must include the standard mortgagee clause as defined above.

- If an individual flood insurance policy is required in accordance with Requirements for Project Developments ([B7-3-06, Flood Insurance Requirements for All Property Types](#)), it must include the standard mortgagee clause as defined above.

TITLE INSURANCE

TITLE POLICY REQUIREMENTS

- Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.
- Preliminary title must indicate that the final title policy will be issued after funding.
- The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements.

BORROWER INFORMATION

- All borrower names must be indicated on the title commitment. If the borrower's marital status appears to be different than the FNMA Form 1003, the discrepancy must be addressed.
- The property seller's name must be cross- referenced to the purchase agreement and valuation chain of title.

COVERAGE AMOUNT

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

INSURED NAME

Title policy must ensure the seller as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

AGE OF REPORT

The preliminary title report/title commitment should be dated no later than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

VESTING

Final title policy vesting should reflect the name(s) of the individual borrower(s). See [Vesting and Ownership](#).

GAP COVERAGE

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period from the original search through the time the mortgage is recorded.

- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

TITLE POLICY FORMS

The final title policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard form
- ALTA short form
- ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to FNMA or Freddie Mac (FHLMC).

TITLE POLICY UNDERWRITER

A title insurer must be:

- Duly authorized and licensed, as required, to issue title insurance in the state where the property is located; and
- Further evaluated in accordance with the lender's procedures for title insurer approval, which may include factors such as:
 - An acceptable rating from a rating agency,
 - Financial strength of the title insurer,
 - Adequate reserves, or
 - Record related to satisfactory title claim resolution.

Iowa Title Guaranty is an acceptable title guarantor for properties located in the state of Iowa.

TITLE COMMITMENT REVIEW

CHAIN OF TITLE

- All files are to contain a 24-month title history from an acceptable source.
- Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided.
- The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

TITLE EXCEPTIONS

The following items are allowable title exceptions:

- Customary public utility subsurface easements: the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with use and enjoyment of any improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one foot or less on adjoining property by eaves or other overhanging

projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.

- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights if they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.
- Municipals and local searches, when provided, must be cleared/resolved prior to loan funding or purchase.

SURVEY REQUIREMENTS

- If surveys are not commonly required in a particular jurisdiction, an ALTA 9 endorsement can be obtained.
 - If neither a survey nor the ALTA 9 endorsement are customary in a particular location, title must not have a survey exception.
- If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.
- Surveys should be reviewed for easements, encroachments, flood zone impacts, and boundary violations, based on the location of the dwelling on the property.

TEXAS HOME EQUITY LOANS (CASH-OUT REFI TEXAS)

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. Texas 50(a)(4) allows for a rate or term refinance of an existing Texas Home Equity loan.

All Texas Home Equity transactions must comply with the more restrictive of the Rockstone Loan Purchase Eligibility Guidelines or Texas Home Equity Loans Requirements.

TEXAS HOME EQUITY - SELLER CERTIFICATION

The seller certifies that with respect to all the Texas Section 50(a)(6) mortgages delivered to Rockstone:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The seller has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that seller failed to comply with the provisions of the law applicable to Texas Section 50(a)(6) mortgages. Such a process must be adequate to ensure that the seller will correct the failure to comply by one of the authorized means no later than the 60th day after the date the seller is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas

Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.

- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the seller regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The seller certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the seller given to Rockstone connection with each Texas Section 50(a)(6) mortgage.

TEXAS HOME EQUITY - GENERAL REQUIREMENTS

The following parameters apply to Texas Section 50(a)(6) mortgages:

- Eligible Products:
 - 40 Year Fixed Rate Term (Fully amortizing)
 - 30 Year Fixed Rate Term (Fully amortizing)
- Full Documentation, 1099, P&L Only, P&L with a minimum of two (2) months Bank Statements, Personal Bank Statement, Business Bank Statement and Asset Utilization Documentation allowed.
- Maximum LTV/CLTV 80/80%
- 1-unit properties only

TEXAS HOME EQUITY - LOAN PARAMETERS

The following are considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay off an existing 50(a)(6) loan (as identified in title work)
- Loans using proceeds to pay off federal tax debt liens.
- Loans using proceeds to pay property tax liens on the property securing the new loan.
- Loans using proceeds to pay off or pay down debts that are not secured by the homestead property.
- Loans with any cash back to the borrower.

The following are NOT considered Texas Section 50(a)(6) loans:

- Loans using proceeds to pay current taxes due on the property securing the loan.
- Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement).
- Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount (new loan must have a new title policy issued without exception to the financing of the prepayment fee).
- Loans that include the payment of HOA dues if the title company requires them to be paid.
- Investment Property loans in Texas and Business purpose loans (DSCR) Note Rockstone will allow Investment Properties in Texas.

TEXAS HOME EQUITY - RESTRICTIONS

The following restrictions apply to Texas Home Equity loans:

- Texas Home Equity loans may not be refinanced more than once a year (>12 months)
- There can be only one outstanding 50(a)(6) loan on a property at any given time.
- If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off.

- The 50(a)(6) loan may not be used to acquire the property or to finance construction.

TEXAS HOME EQUITY - OCCUPANCY

Texas Home Equity loans are eligible on Primary Residences only. All borrowers on the loan must be in title and occupy the subject property as their Primary Residence.

Cash Out transactions are eligible on Second Homes and Investment Properties in Texas if the loan we are paying off is not a Texas A6 loans and the property does not have a Homestead Exemption.

TEXAS HOME EQUITY - BORROWERS

The following borrowers are eligible on Texas Home Equity loans. All borrowers must maintain Primary Residence occupancy in the subject property:

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens

The following borrowers are ineligible:

- Co-signer(s)
- Non-occupant co-borrowers
- Borrowers not on title
- ZETA (Foreign National)s
- Corporations, partnerships, or LLCs
- Trusts

TEXAS HOME EQUITY - NON-BORROWING SPOUSE

A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:

- Notice Concerning Extension of Credit signed by all property owners. The signing starts the 12-day "cooling off" period.
- Security Instrument (including any Riders)
- Truth-in-Lending (TIL) Disclosure Statement
- Right of Rescission Notice
- Discount Point Disclosure
- Acknowledgment of Fair Market Value
- Premium Pricing Disclosure
- Notice of Presentment of CD One Day Before Closing
- Texas Home Equity Affidavit and Agreement
- Owner's Affidavit of Compliance
- Receipt of Copies of Documents
- Certificate of Non-Cancellation of Loan

TEXAS HOME EQUITY - POWER OF ATTORNEY

Power of Attorney is ineligible.

TEXAS HOME EQUITY - PAYOFF OF DEBT

Rockstone may require the payoff of the existing first lien as part of the loan approval when the following requirements are met:

- Rockstone may not require any other seller-owned debt to be paid off as part of the transaction as a condition of loan approval.
- If the payoff of debts to other sellers/creditors is required to qualify the borrower, then

those payoffs must be shown on the settlement statement and disbursed directly to the creditor by the title company.

- Debts that are elected to be for paid off by the borrower but are not required to be paid off to qualify the borrower, may be disbursed directly to the borrower.
- Installment debts a payoff is required.
- Revolving debt uses the balance on the credit report.

TEXAS HOME EQUITY - SECONDARY FINANCING

New subordinate financing is ineligible, but existing subordinate financing may remain in place. See Subordinate Financing.

TEXAS HOME EQUITY - PROPERTY CHARACTERISTICS

All properties must be residential in nature. Tax certification and exemptions for the property are to be reviewed and must meet the following requirements:

- Property must be a principal residence constituting the borrower's homestead in the state of Texas.
- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road.
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel.

TEXAS HOME EQUITY - URBAN AND RURAL HOMESTEAD DEFINITIONS

TEXAS HOME EQUITY HOMESTEAD DEFINITIONS		
	URBAN HOMESTEAD DEFINITION	RURAL HOMESTEAD DEFINITION
ACREAGE	Acreage securing the loan may not exceed 10 acres.	Acreage may exceed 10 acres. However, the lot size must be typical and common with highest and best use as residential. In no case may the lot size exceed 20 acres.
PROPERTY LOCATION AND SERVICES	Property must be located: - Within municipal boundaries, or - Its extraterritorial jurisdiction, or - A platted subdivision and be served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a Municipality or under contract to a municipality: • Electric • Natural gas • Sewer • Storm sewer • Water	The property is not located within municipal boundaries or its extraterritorial jurisdiction, or if the property is in one of those types of areas: - It is not served by police protection or paid, or volunteer fire protection provided by the municipality or under contract to a municipality, and - The municipality provides directly or under contract less than three (3) of the following services: • Electric • Natural gas

		• Sewer • Storm sewer • Water
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Properties determined to be 'Urban' cannot exceed 10 acres. Property determined to be 'Rural' may not exceed 20 acres. The property should conform to and be acceptable in the market area. The appraisal must include the actual size of the site and not a portion of the site.

TEXAS HOME EQUITY - 12-DAY COOLING OFF PERIOD

The Notice Concerning Equity Loan Extension of Credit must be provided to the borrower in English.

And an additional copy of the notice translated into the written language in which the discussions were conducted. To ensure the disclosure is provided to the borrower in the correct language, the loan officer must add a comment to the Loan Submission form identifying the language spoken. The processor must properly identify the language spoken when ordering documents.

- Loan may not be closed until at least 12 calendar days after the borrower has dated and signed the initial application and Notice Concerning Equity Loan Extension of Credit.
- E consent signatures are acceptable.
- The "cooling off" period in which the borrowers, owners-in-title, and/or spouse (including non- borrowing spouse) can change his/her mind about the Texas Home Equity first mortgage runs from the later of:
 - The date the initial loan application is signed, or
 - The date that the Notice Concerning Equity Loan Extension of Credit is signed and dated by the borrowers, owners-in-title, and/or spouse.

TEXAS HOME EQUITY - CLOSING DISCLOSURE AND FINAL LOAN APPLICATION

The final Closing Disclosure (CD) and a copy of the final loan application must be delivered to/accepted by the borrower(s) during normal business hours. The seller is responsible for ensuring all timing requirements under Regulation Z and state law are complied with.

Borrowers must sign the Acknowledgment of Itemization of Fees, Points, Interest, Costs and Charges for Texas Home Equity Loan or Line of Credit to evidence their receipt of the final Closing Disclosure and loan application.

TEXAS HOME EQUITY - POINTS AND FEES

Borrower paid fees are limited to 2% of the principal balance (including the origination fee). The following are not included in the 2% limitation:

- Lender paid closing costs.
- Per diem interest
- Bona fide discount points are used to reduce the interest rate.
- Escrow/impound funds.
- Appraisal fee paid to third-party appraiser.
- Surveys (completed by state registered or licensed surveyors)
- A state base premium for a mortgagee policy of title insurance with endorsements established in accordance with state law; or if a mortgagee title policy is not issued, a title examination report (if cost is less than the state base premium for a mortgagee title policy without endorsements)

If borrowers are paying discount points, the borrowers, owners-in-title and/or spouse must execute the TX Home Equity Discount Point Acknowledgment.

Only fees which are allowed by State Law and RESPA/ECOA regulatory guidelines can be charged to the borrower and MUST be accurate and reflected on the Loan Estimate (LE) and the Closing Disclosure (CD).

TEXAS HOME EQUITY - ATTORNEY REVIEW

All closing packages prepared by ROCKSTONE must be reviewed by one of the following law firms (other attorneys may be acceptable when approved in advance by Rockstone).

- McGlinchey Stafford and Youngblood & Associates
- Polonsky Betel Green, LLP
- Brown, Fowler, Alsip
- Beadle, Newman, & Lawler
- Gregg & Valby, LLC
- Black, Mann and Graham, LLP
- Robertson Anschutz Vettters, LLC

Correspondents are permitted to work with attorneys of their choosing for the attorney review.

TEXAS HOME EQUITY - TITLE

A title insurance policy written on Texas Land Title Association forms (standard or short) including T42 and T42.1 endorsements are required.

For self-employed borrowers operating a business from the homestead property, the title company must issue a T42.1 endorsement without exception or deletion.

Title may not include language that:

- Excludes coverage for a title defect that arises because financed origination expenses are held not to be "reasonable costs necessary to refinance;" or
- Defines the "reasonable costs necessary to refinance" requirement as a "consumer credit protection" law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

Loans must be closed in a Texas title company's office or attorney's office. No mobile notaries are permitted.

TEXAS HOME EQUITY - SURVEY

Surveys are required on all Texas Home Equity transactions to ensure the following:

- Confirm lot size.
- Evidence homestead property and any adjacent land are separate.
- Evidence of homestead and property is a separately platted and subdivided lot for which full ingress and egress are available.
- Properties must be served by municipal utilities, fire, and police protection.
- Homestead must be a separate parcel within permissible acreage.

A T19 endorsement is permitted in lieu of a survey when title is willing to insure over it; title survey and/or encroachment exceptions are not permitted.

TEXAS HOME EQUITY - DOCUMENTS

The following additional Texas Home Equity specific documents must be included in the closing package:

- Notice Concerning Extension of Credit Defined by Section 50(a)(6) (signed by each owner of the property and each spouse of an owner)
- Acknowledgment of Fair Market Value of Homestead Property (borrower and seller must sign at closing with an appraisal attached to the Acknowledgment)
- Notice of Right to Cancel (signed by each owner of the property and each spouse of an owner)
- Texas Home Equity Security Instrument (Form 3044.1)
- Texas Home Equity Note (Form 3244.1)

- Texas Home Equity Affidavit and Agreement (Form 3185)
- Texas Home Equity Condo Rider (Form 3140.44), if applicable
- Texas Home Equity PUD Rider (Form 3150.44), if applicable
- Texas Home Equity Certificate from Originating Lender's Regarding Compliance with Section 50(a)(6) Article XVI of the Texas Constitution signed by the Seller's Attorney
- Texas Home Equity Discount Point Acknowledgment, if applicable
- Affidavit of Non-Homestead for all other dwellings if borrower owns more than one.
- Detailed closing instruction letter acknowledged by title company (Compliance Requirements for Texas Home Equity Loans)
- Note for any re-subordinating second (cannot be an (a)(6) Note, a new loan or a HELOC) with subordination agreement, if applicable.

TEXAS HOME EQUITY – 50(F)(2) REFINANCING AN EXISTING HOME EQUITY LOAN

Existing home equity loans (as identified in title work) may be refinanced as non-home equity loans and secured with a lien against the home, provided the following conditions are met:

- the refinance occurs at least a year after the home equity loan was closed.
- the additional loan amount only covers the actual costs of the refinancing and does not provide the consumer with additional funds.
- the value of the new loan combined with the total of the outstanding principal balances of all other valid indebtedness secured by the homestead does not exceed 80% of the fair market value of the homestead on the date the extension of credit is made; and
- the lender provides the homeowner the written notice (required by and promulgated under Section (f)(2)(D) and referenced below) on a separate document no later than the third business day after the date the owner submits the loan application and at least 12 days before the closing of the refinance.

The 'Notice Concerning Refinance of a Texas Home Equity Loan Pursuant to Subsection (f)(2) of Article XVI, Section 50 of the Texas Constitution', must be provided to the owner:

For loans refinancing an existing home equity loan, the loan file must include the Texas Constitution Section 50(f-1) Affidavit Acknowledging Requirements of Subsection (f)(2), which must be properly executed under Texas law by the owner/owner's spouse.

All the above requirements must be met for the home equity loan to be refinanced as a non-home equity loan.

FORMS AND TOOLS

The most up-to-date versions of all ROCKSTONE forms, matrices, and guidelines can be accessed through the ROCKSTONE Client Portal under *Guidelines and Matrices*.

The following forms can be found under *Documents* via the Rockstone (ROCKSTONE) Client Portal

- Ability to Repay
- Affiliated Business Disclosure
- Allonge Signatory Certification
- Anti-Steering Disclosure
- Automatic Payment Authorization Form
- Borrower Certificate of Business Purpose
- Borrower Contact Consent
- Buydown Agreement
- Business Narrative
- Commercial Loan Application
- Condo Project Questionnaire
- DSCR Compliance Agreement
- Exception Request Form
- Gift Letter
- ICD Request Forms
- LLC Borrowing Certificate
- NY Approved Attorney List
- NY Attorney Approval Request
- NY Approved Housing Counselors
- NY Choice of Attorney Certification
- NY Consumer Counseling Notice
- Occupancy Certificate
- Prepayment Addendum
- Request for Verification of Earnings
- Spousal Consent Form
- Taxpayer Consent Form

Sample Forms are available under *Documents* via in the Client Portal.

- Expense Statement CPA Letter
- ZETA (Foreign National) Mortgage Reference Letter
- ZETA (Foreign National) Bank Reference Letter
- ZETA (Foreign National) CPA Reference Letter for a Free and Clear Property
- ZETA (Foreign National) Credit Reference Letter
- ZETA (Foreign National) Employer Reference Letter

CHANGE HISTORY	
Change Date	Description of Change
8/3/2026	GUIDELINES AND MATRICES – Updated as follows: Geographic Restrictions - Restrictions for properties located in TX based on Texas Senate Bill 17 have been added to the guidelines and include: - ITINs and ZETA (Foreign National)s from the following countries are ineligible: China, Russia, Iran, and North Korea - Non-Permanent Residents from China, Russia, Iran and North Korea are restricted as follows: - Primary Residence only - Must have proof of lawful presence in the U.S. - Current OFAC Restricted Countries have been added to the guideline. DSCR No Ratio Investor Experience - First time investors on No Ratio are not permitted. Employee Loans - Updated the guideline to permit DSCR transactions. Cash Out Refinance Seasoning Requirements - On second liens, provided the borrower has 6 months ownership seasoning, no further restrictions apply. Entity Vesting – Corporation and Partnership Updates - Removed the requirement for a Certificate of Good Standing if the corporation or partnership was formed within 120 days of the note date. - Removed the requirement for evidence of the Franchise Tax payment for corporations. Housing History – Rent Free or Incomplete Housing History - Clarified that when there are multiple borrowers, only one of the borrowers needs to have a housing history to not be considered rent free. Housing and Credit Events – Chapter 13 Bankruptcies - Updated the guidelines to align with the matrices with regards to Chapter 13 discharge seasoning requirements. - The requirement for the bankruptcy to be discharged a minimum of 12 months has been removed on DELTA PRIME (DSCR) and DELTA (DSCR). The bankruptcy must still be discharged prior to closing and meet the applicable look back period as defined on the matrix. Departure Residence with no contract in place - If the borrower's current principal residence will be sold but there is currently no contract in place, the debt may be excluded as follows: - The property is currently listed for sale - There is 30% equity in the primary residence documented through either an AVM with a 90% confidence rating, a 2055, or a full appraisal. - The borrower has an additional 6 months reserves on the subject property, in addition to any program required reserves. - Minimum FICO of 700. - Maximum LTV of 80% - New transaction is a primary purchase. Liabilities – Debts paid by others - Non-mortgage debt can now be excluded with 12 months of timely payment history from the paying party, regardless of who is legally obligated. Liabilities – IRS Installment Debt - Guideline has been simplified. The requirement for purchase and refinance transactions is now aligned. Borrower must be enrolled in their tax installment repayment plan for at least two months and have made at least two consecutive monthly payments. Previously, requirements differed by loan type. Rental Income – Full Doc - For newly constructed or rehabbed properties, a copy of the lease may not be available. In that instance, evidence the property is listed for rent, along with supporting documentation that the rental figure is at the market rate is required. 75% of market rents will be used to qualify. Bank Statement Analysis

	○ Updated the definition of large deposits to be those that exceed 100% of the average gross deposits over a 12- or 24-month period. • Assets ○ On Full and Alt Doc purchases, increased the large deposit threshold requiring supporting documentation from 50% to 100%. • Appraisal Review Process ○ Added Geographic Restriction detail within the guidelines to align with the matrices. • Condo – Maximum Concentration Exposure ○ Clarified that the condo team may approve total exposure exceeding \$5,000,000 with sufficient condo project compensating factors, however an Exception Desk approval is required when the exposure exceeds 20% of the total units in the project. • Warrantable Condo ○ Limited Review: Applications for Warrantable Condos under the Limited Review process must be dated prior to August 3, 2026, as FNMA is retiring this review option for applications dated on or after August 3, 2026. In order to qualify as a warrantable condo, the project must be eligible for a waiver, or a full review must be completed. ○ When using the reserve study instead of a budget, the highest recommended reserve allocation must be used from the report. The baseline funding method is no longer acceptable in determining if sufficient reserves are met. • Non-Warrantable Condo – New Projects ○ Note that Developer / Converter is not considered a single entity owner while converting units when only a portion of the old pre-conversion units have been vacated. • Project Insurance ○ Added wildfires to the list of required perils ○ Pulled co-insurance coverage out into its own section • Texas 50a6 Non-Borrowing Spouse ○ Removed the requirement for the non-borrowing spouse to sign an application.
5/15/2026	GUIDELINES AND MATRICES – Updated as follows: • Geographic Restrictions ○ Clarified that loans for properties located in the following US Commonwealth and territories are not eligible for purchase: Puerto Rico, Guam, and the US Virgin Islands. ○ Effective 6/30/26 with v3 update: ▪ The following zip codes have been added to the ineligible list: 19122, 19123, 19125, 19130, 19133, and 19140. ▪ Row homes in Philadelphia are ineligible regardless of product. • ALPHA ○ The Rental Income section of the matrix has been simplified. Full details of the rental income options are referenced in the guides. No material changes. • BETA ○ The maximum LTV on a 660 score with a loan amount up to \$2,000,000 has been increased to 65% on a primary cash out. ○ First Time Homebuyers are capped at 50% DTI. ○ The Rental Income section of the matrix has been simplified. Full details of the rental income options are referenced in the guides. No material changes. • ITIN ○ Clarified the maximum LTVs permitted for cash out condos. See matrix for full details. ○ The Rental Income section of the matrix has been simplified. Full details of the rental income options are referenced in the guides. No material changes. • OMEGA (Super Jumbo) ○ The Rental Income section of the matrix has been simplified. Full details of the rental income options are referenced in the guides. No material changes. • Second Lien ○ Removed the requirement to reduce the eligible LTV by 5% for cash out transactions. ○ Ineligible senior liens have been updated to include: ▪ Hard Money loans ▪ Mortgages not reported on the credit report unless the loan is serviced by an institutional servicer (ex. Shellpoint, Selene, SPS, SLS, Planet, Fay). ○ Clarified that Non-Occupant co-borrowers are ineligible.

	○ Clarified that entity vesting is permitted for investment properties. ○ The Rental Income section of the matrix has been simplified for Full and Alt Doc loans. Full details of the rental income options are referenced in the guides. No material changes. ○ Clarified the DSCR Ratio must consider both the first and lien liens PITIA in the ratio. ○ The confidence factor to allow for the use of an AVM on stand-alone seconds with loan amounts less than \$400,000 has been lowered to 90%. ○ Clarified that the Property Condition Inspection Report is an exterior only inspection. ○ Removed the LTV reductions when using Asset Utilization. ● DELTA PRIME (DSCR) ○ Removed 40 year Interest Only option. ○ Clarified that when rental income is derived from monthly or seasonal rentals, a 12 month average of rents must be used for qualifying. Income may be derived from the 1007/1025 or a 12 month look back from rents received. ○ Gift funds are now permitted after borrower meets a minimum 5% contribution. ● DELTA (DSCR) ○ Added the availability to go to 80% LTV on a purchase with a 700 score with a loan amount up to \$1,000,000. ○ Increased LTVs in the 660 FICO bucket with a DSCR > 1 on rate and term refinances with loan amounts up to \$1,500,000 to 70%, and on purchases with loan amounts up to \$2,000,000 to 65%. ○ Removed 40 year Interest Only option. ○ Cash Out is not permitted on unleased recently constructed/rehabbed properties or delayed financing transactions with scores under 720. ○ First Time Homebuyers are not permitted. ○ First Time Investor Restrictions added: ▪ Cannot be a First Time Homebuyer ▪ Minimum DSCR of 1 ▪ Minimum FICO of 700 ▪ No Exceptions permitted ○ Updated the definition of long term rentals to include properties leased for 30 days or more, including monthly or seasonal rentals. ○ Clarified that when rental income is derived from monthly or seasonal rentals, a 12 month average of rents must be used for qualifying. Income may be derived from the 1007/1025 or a 12 month look back from rents received. ○ Gift funds are now permitted after borrower meets a minimum 5% contribution. ○ Up to 5 acres is permitted provided subject is not rural in nature, and the acreage and land value are typical and common for the subject's market. ● DSCR No Ratio ○ First Time Homebuyers are not permitted. ○ First Time Investor Restrictions added: ▪ Cannot be a First Time Homebuyer ● DSCR 1-4 Unit Rental Income Calculation ○ Updated the guide to allow for 100% of market rents to be used on vacant units provided the lease and occupancy requirements component of the guideline has been met. ● Inherited Properties ○ There was an outdated requirement in the guideline to treat an inherited property as a cash out if the property was acquired within the past 12 months. This has been removed. ● Non-Permanent Residents with No Score ○ New section added which clarifies the requirements for non-permanent residents with no score. Eligibility is available under BETA with the following requirements: ▪ Borrowers must have recently relocated to the US such that it would be logical for US Credit to not yet be established. ▪ Required trades: • 3 Trades for 12 months, OR • 2 Trades for 24 months. • One of the trades must be a housing history or the borrower must own their current home free and clear. ▪ Loan must be priced under the ZETA (Foreign National) Program. ▪ Purchase Transactions only. ▪ Maximum LTV of 75% on a Primary Residence or 70% on a Second Home. Investment transactions not permitted.
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	▪ Maximum loan amount of \$1,500,000. • ITIN Verification ○ Use of an online service to authenticate the ITIN number has been added as an acceptable method of documentation • Credit Events – Bankruptcy ○ Clarified that a Chapter 11 is also included as a credit event. • Court Ordered Assignment of Debt ○ The Delinquent Credit belonging to ex-spouse and Contingent Liabilities sections have been replaced with the Court Ordered Assignment of Debt section, which aligns with FNMA. • Rental Income ○ The section has been rewritten and simplified. No material changes to the guideline. • Non-Taxable Income ○ Guideline updated to align with FNMA and permit Social Security Income to be grossed up 15% within the need for additional documentation. • Secondary Business Income ○ Clarified that secondary sources of income not needed to qualify are not required to be documented except for borrower's who are self-employed qualifying using full documentation. • Alt Doc – CPA / Tax Preparer's Verification ○ We have updated our Alternative Documentation guidelines to streamline tax preparer verification. ○ We now officially recognize tax preparers participating in the California Tax Education Council (CTEC) program. ○ References in The Guide to specific licensing and certification types have been replaced with the broader term "appropriately licensed tax preparer". This change accounts for regional variations in licensing standards. ○ To maintain file integrity, lenders are required to perform specific due diligence to ensure the tax preparer holds the appropriate credentials for their jurisdiction. • Alt Doc – Minimum Expense Ratio ○ The minimum expense ratio when qualifying via an Expense Statement or a third party prepared Profit and Loss statement has been reduced from 20% to 15%. This change applies to the following Doc Types: Bank Statements, P&L plus 2 months Bank Statements and P&L only. • Alt Doc – Asset Utilization ○ Effective 6/26/26, the standard asset utilization will be qualified as follows. Monthly Income = Net Qualifying Assets / 84 months. Supplemental Asset Utilization remains unchanged. • Alt Doc – Written VOE ○ Clarified that borrowers may have no other sources of active employment income. Non-employment additional income sources are permitted. • Gift Funds ○ Gift Funds on Second Homes are permitted with minimum 5% borrower contribution, down from 10%. 100% of funds may still be gifted on BETA and ALPHA to a max LTV of 80%. ○ Gift Funds on Investment properties are permitted with a minimum 5% borrower contribution for ALPHA, BETA, ITIN, DELTA PRIME (DSCR) and DELTA (DSCR). • Appraisal Review ○ Loan Collateral Advisor (LCA) may be used in place of Collateral Underwriter (CU) for the required Appraisal Review product. The Submission Summary Report must be provided. While both LCA and CU may be run, only one is required. If both are run, they must be run at the same time and only one needs to have a passing score. • Property Condition ○ Properties which are severely cluttered or unkempt may lead to unsanitary conditions, mold, or pest infestations and will be deemed unacceptable. • Accessory Dwelling Unit ○ Clarified that properties with multiple ADUs are permitted, provided a minimum of 2 comparables with similar set ups are provided, and that the municipality allows for such as set up. • Rental Income on ADU
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	○ Section has been eliminated and is now included within the Accessory Dwelling Units (ADU) section. Rental Income Requirements for the applicable program and qualification method applies. ● Condominiums ○ Several portions of the guideline have been rewritten to align with the changes announced by FNMA. ○ Projects consisting of 2-10 units no longer need a project review provided the following requirements are met: ▪ Cannot be categorized as unavailable in FNMA CPM ▪ The project must not be part of a master association or larger development ▪ Meets applicable condo insurance requirements ▪ No critical repair issues are identified ○ Investor Concentration restrictions have been removed on Warrantable Projects with a Full Review. ○ New Projects in Florida no longer require a PERs approval. ● Detached Condo / Site Condo ○ This section of the guideline has been rewritten; however there are no material changes to the underlying requirements. ● Condotel ○ The maximum loan amount for a condotel has been increased to \$2,500,000 on Select Prime and \$2,000,000 on DELTA (DSCR). Also, the maximum LTVs for condotel DSCRs has increased. See matrix for details. ○ The Condotel section of the guidelines has been rewritten; however there are no material changes to the underlying requirements. ● Disaster Areas ○ Minor clean up to this section of the guideline with no material changes. ● Insurance ○ In line with FNMA, we have retired any requirements to document replacement cost values. In addition, roofs no longer need to be insured on a replacement cost basis. ○ Master Policy Updates for units in a Project: ▪ The requirement for inflation guard coverage has been eliminated. ▪ Roofs are required to be insured but are not required to be insured on a replacement cost basis. ▪ The Required coverage amount section has been updated to include various methods sufficient coverage may be determined. ▪ Liability Insurance has been updated to include the following instances in when liability insurance is not required: • When the project qualifies for a project waiver, or • For Limited or Non-Warrantable Reviews. ○ A new section titled Property Insurance Requirements for a Unit in a Project Development has been added to add guidance on when individual insurance policies are required as well as what the coverage requirements are. ● Texas Cash Out ○ Clarified that Correspondents are permitted to work with attorneys of their choosing for the closing package attorney review.
02/13/2026 Rev1 changes are highlighted	GUIDELINES AND MATRICES – Updated as follows: ● ALPHA ○ 30 year IO added ○ Interest Only restrictions have been reduced. Follow the matrix for the maximum LTV. ○ Standardized max cash back between Supreme and Select to: <= 70%: Unlimited and > 70%: \$1,000,000 or unlimited with 18 months of reserves exclusive of cash back. ○ Added in maximum loan amount of \$1,500,000 for a First Time Homebuyer to align with Select. ○ Asset Utilization Updates: ▪ Removed the requirement to reduce the allowable LTV for asset utilization. Follow the matrix for the permitted Max LTVs. ▪ Crypto-currency is permitted using a 60% valuation requirement. See guidelines for further details. ○ Removed the First Time Homebuyer and LTV restrictions for 2-4 Unit properties. Follow the matrix for the permitted Max LTVs. ○ Updated LTVs on Warrantable Condos. See Matrix for restrictions. ○ Rural properties are now permitted on Primary and Second Homes to 80% and on

	investment properties to 75%. ○ Max 20 acres permitted for a Primary and Second Home and max 5 acres permitted for an investment property. • BETA ○ 30 year IO added ○ Interest Only permitted to 55% DTI; must be qualified using fully amortizing payment. ○ Minimum loan amount lowered to \$100,000 to line up with Supreme. ○ Standardized max cash back between Supreme and Select to: ≤ 70%: Unlimited and > 70%: \$1,000,000 or unlimited with 18 months of reserves exclusive of cash back. ○ Added clarity to the Tradelines portion of the matrix referencing options for borrowers with Limited Tradelines and for Non-Permanent Residents qualifying with non-traditional credit. ○ Asset Utilization updated to allow crypto-currency using a 60% valuation. See guidelines for further details. ○ Updated the eligibility for asset utilization > 85% LTV provided the DTI is capped at 50%. • BETA DU ○ Removed specific reserve requirements for loan amounts > \$2,000,000 since program is capped at \$2,000,000. • ITIN ○ Clarified that an ITIN borrower may be qualified under the ZETA (Foreign National) Matrix when qualifying with a ZETA (Foreign National) borrower. ○ Clarified that at one borrower must be either an ITIN or DACA Borrower. ○ Clarified max LTVs on Condos. • ZETA (Foreign National) ○ Added clarification to the matrix that borrowers and guarantors from OFAC sanctioned countries are ineligible. This requirement was already located in the guidelines and is not a change. ○ Removed the documentation requirements from the Matrix. Refer to the guidelines for details. ○ Removed the requirement for Foreign Credit to be established. Qualification is now based on the borrower either having a US Credit score or having no US Credit Score. ○ Housing History is evaluated when evident on the US Credit Report; otherwise housing history is not required to be documented. ○ PITI payments must be included in the DTI on full and alt doc loans, unless evidence is provided to support taxes and/or insurance doesn't exist and that the property is free and clear. ○ Removed the specific requirement for a certified translator to translate documents not in English. The requirement is now that documents not in English must be translated. Tools such as Google Translator, or similar options, may be used. • DELTA PRIME (DSCR) ○ Clarified that it is acceptable for recently constructed properties to be vacant. Evidence property is listed for rent is required. ○ If using a lease to qualify that is higher than the market rents, evidence of 2 months of receipt is required. Rents cannot be prepaid to meet the 2 month requirement. The 120% cap on the rental amount on the lease over market is being removed with this change. ○ It's acceptable for a maximum of one unit in a 2-4 unit property be vacant on a refinance transaction provided the unit is rent ready, listed for rent, and 75% of the market rent is used for qualifying. • DELTA (DSCR) ○ There is no longer an LTV reduction for housing events 2+ years out. ○ Clarified that it is acceptable for recently constructed properties to be vacant. Evidence property is listed for rent is required. ○ If using a lease to qualify that is higher than the market rents, evidence of 2 months of receipt is required. Rents cannot be prepaid to meet the 2 month requirement. The 120% cap on the rental amount on the lease over market is being removed with this change. ○ It's acceptable for a maximum of one unit in a 2-4 unit property be vacant on a refinance transaction provided the unit is rent ready, listed for rent, and 75% of the market rent is used for qualifying. • GAMMA (DSCR Multi) & Mixed ○ Clarified that all borrowers must meet the minimum score requirement of 720, including ZETA (Foreign National) Borrowers.
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	○ Property types are restricted to 5-8 unit residential properties only. ○ Mixed Use 2-8 Unit properties are no longer being offered. Locks will be permitted through 2/27/2026 and closed loans must be delivered for purchase by 4/15/2026. ○ Program is being renamed to GAMMA (DSCR Multi) (5-8 Units) • Sigma (Second Lien) ○ Program is now available in all channels. • Geographic Restrictions ○ Restrictions have been lifted on non-TRID 2nd liens in NJ, NY and TX. ○ Brooklyn Properties are now permitted on Investment properties with the following caveats: ▪ In Wholesale, Transferred Appraisals are not permitted ▪ All Transactions will require a field review*. ○ Properties located in Memphis, TN require a field review* ○ * Correspondent Clients must provide the field through an AMC other than the one used for the Original Appraisal. • Escrow Waivers ○ Clarified that borrowers who own their property free and clear or who are living rent free meet the housing history requirements for escrow waivers. • Escrow Holdbacks ○ Clarified for Correspondent Clients that new construction purchases where the landscaping and final grading are not yet complete due to weather constraints, loans will be purchased prior to the final work being complete. In those instances, the final inspection is to be delivered upon completion. • Co-Signers ○ Co-borrowers may act as co-signers on primary residences only and are not required to take title to the property. • Entity Vesting ○ In the scenario where a property is owned 50%/50% by two members, but only one member is an authorized signer credit qualifying for the loan, the second member is not required to execute a guaranty. • Non-Traditional Credit (ITIN and Non-Permanent Resident Aliens) ○ Maximum LTVs have been defined as the lesser of the Matrix LTV or 75% for an owner occupied/second home or 70% for an investment property. • Foreign Credit ○ Section has been eliminated. • Housing History ○ The section has been reformatted. There is no change to the content. • Past Due Accounts – Updated as follows: ○ Added Investor No Ratio requirement to the guideline for an LOE on all derogatory revolving and installment accounts 60 days delinquent within 4 years of closing. Requirements were already present on the Matrix. • Alt Doc – Bank Statement Income – Large Deposits updated as follows: ○ When using Business Bank Statements, only large deposits greater than 50% of the average gross deposits over a 12 or 24 month period which appear unusual, inconsistent, or non-business related must be sourced or excluded. ○ No change when using Personal or Co-Mingled Statements. • Rental Income on Alt Doc Loans ○ Clarified that rental income from a departure residence can be used with a lease provided the lease is confirmed to be at market rate and a 25% expense factor is applied. • Short Term Rentals (Non DSCR) ○ Clarified available for both purchase and refinance transactions. • Foster Care Income ○ Aligned with FNMA. • Notes Receivable ○ Updated the guideline to allow for notes receivable income received for six months or greater to be used for qualifying purposes. • Assets ○ Clarified that large deposits on business accounts are not required to be sourced when those funds are being used for assets. ○ Clarified when business assets are from the entity holding title to the property, the
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	entire balance of the assets may be used for qualifying, and an access letter is not required. • Reserves ○ Clarified that reserves are for the subject property housing expenses only. • Appraisal Review Process ○ Clarified that the Appraisal Review Process establishes the minimum requirements for loan delivery. We encourage our business partners to use all available tools and resources to ensure the property value is well supported prior to delivery. Rockstone reserves the right to request additional appraisal products based on a comprehensive review of the appraisal, market data, and the loan file. • Transferred Appraisals ○ Not permitted on Investment Properties in Brooklyn, NY or on any occupancy type in Memphis, TN. • Appraisal Review – GAMMA (DSCR Multi) ○ Added the availability to use a field review for the Appraisal Review Product options. • Property Condition ○ DSCR Properties are expected to be free of deferred maintenance. • Additions without Permits ○ Clarified that while the addition may not have been permitted, the property usage must conform to zoning laws and/or regulations. • Multiple Dwellings on One Lot ○ Updated to clarify if 2 or more similar comps are provided, property may be considered. ○ Aligned with Accessory Dwelling Units section of the guide. • Rural Properties ○ Added clarification that websites such as the below will be used to determine if property should be analyzed as rural. See guide for more details. ▪ https://www.consumerfinance.gov/rural-or-underserved-tool/ ○ Clarified that properties must be suitable for year round occupancy ○ Updated the acreage requirements for full and alt doc investment properties so it is consistent between the matrices and guidelines. • Property Types ○ Added Container Homes as an unacceptable property type. • Condo ○ Clarified that rental pooling would render a condo ineligible. ○ Clarified that maximum NQM exposure applies to all condo types. • Hazard Insurance ○ Clarified that a binder will not have a policy number included.
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