

Smartfi Home Loans
CHOICE Lending Guidelines

VERSION 4.0

CONFIDENTIAL DOCUMENT

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1. REVERSE MORTGAGE COUNSELING

Independent reverse mortgage counseling is required for all borrowers with a vested interest at closing. Power of Attorney or Guardian/Conservator must be counseled on behalf of any borrower(s) or vested owner(s) that are legally incompetent. The lender must not accept a final and completed application or assess any fees on the borrower/applicant without first receiving a copy of the completed counseling certificate signed by the counselor and borrower.

NOTE: Lender/originators must follow all state regulations and guidelines with respect to counseling requirements and timing.

1.1. COUNSELING FEE

- Counseling agencies may charge a fee for reverse mortgage counseling.
- The counseling fee must be paid up front by the applicant(s) and cannot be financed into the loan.
- Lender/originator cannot pay counseling agencies directly or indirectly for reverse mortgage counseling services through either a lump-sum payment or on a case-by-case basis.

1.2. COUNSELING AGENCIES

The following counseling agencies are permitted to perform counseling for any borrower seeking the CHOICE program:

Cambridge Credit Counseling	888-764-7460
Consolidated Credit Solutions	800-728-3632
Debt Helper	800-920-2262
GreenPath Debt Solutions	877-385-1941
Money Management International	866-834-0428
National Foundation of Debt Management	888-738-8233
Project Sentinel	888-339-6043
QuickCert	888-383-8885
Spring Board/Credit.org	800-294-3896
Horizon Counseling Inc.	888-315-4326

1.3. COUNSELING CERTIFICATE

Upon completion of the counseling session(s), the counseling agency issues a counseling certificate, as follows:

The certificate must contain each of the following:

- Borrower(s) Name(s), Power of Attorney, Guardian/Conservator, as applicable
- Subject property address
- Name of the counselor
- Name of the counseling agency
- Employer Identification Number (EIN) of the agency
- Date counseling completed
- Manner in which counseling was completed (face-to-face/ telephonic)
- Certificate expiration date

The certificate must be signed and dated by all applicants and/or their representatives.

1.4. STATE COUNSELING REQUIREMENTS

CALIFORNIA:

- CA Code requires face to face counseling unless the borrower elects to receive counseling in another manner. This must be documented on the counseling certificate and/or addendum to the certificate. By reflecting is the borrower(s) chose face to face or telephone counseling.
- A cooling off period of seven (7) calendar days from the date of counseling is required from the date of the counseling certificate. During this Cooling Off period, the loan application may not be "accept a final and complete application" and services may not be ordered (note: the credit report may be ordered however no monies may be collected from the borrower). The remaining services may be ordered on the 8th day.
- CA Borrowers are required to receive the following disclosures/documents prior to counseling:
 - List of HUD Approved counselors
 - Reverse Mortgage Worksheet Guide
 - Important Notice to Reverse Mortgage Applicant

TEXAS:

- The loan cannot close until at least 5 days after the date of counseling.
- The loan MUST close within 180 days of the date of counseling.

UTAH:

- The borrower are required to receive counseling PRIOR to executing the initial application.

WASHINGTON:

- The borrower must be provided with a list of at least 5 independent HUD-approved housing counseling agencies prior to accepting a final and complete application (this can be sent with the initial application). The list must include at least 2 agencies that can provide counseling by telephone.

NOTE: All counseling agencies permitted for the CHOICE program are able to provide telephone counseling. The lender must keep the counseling certificate signed by both the borrower and the counselor for telephone counseling requests.

2. APPLICATION

This section includes information concerning certain documents contained in the application package.

2.1 GENERAL REQUIREMENTS

- All documents must be signed and dated by the appropriate parties.
- Initial disclosures must be sent at or within three (3) days of application. Documents containing a specific interest rate(s), such as the Comparison of Products, must reflect the rate(s) in effect on the date of disclosure.
- The MLO signs both the initial Loan Application and final Loan Application.
- All state disclosure requirements must be adhered to.

2.2 INITIAL APPLICATION

An initial application may only be taken by a licensed Mortgage loan Originator (MLO) who holds an active license in NMLS for the state the property is located, or are sponsored by a federally chartered institution in the subject property state. The MLO consults with the borrower to explain program options, discuss eligibility, provide a Counseling Referral List, and collect the necessary information to produce the initial application package to submit to the borrower.

Note: A credit report can be ordered prior to application date.

2.3 DEFINITION OF APPLICATION

For purposes of initial disclosure requirements, the file is considered an application when the following data is obtained and an intent to proceed is given:

- Borrower and Co-Borrower's Name, as applicable
- Borrower's monthly income (all borrowers)
- Borrower's Social Security Number (all borrowers)
- Borrower's Date of Birth (all borrowers)
- Property address
- Estimate of the value of the property
- Interest Rate
- Product Type/Margin
- Principal Limit

The application may be in writing or electronically submitted, including a written record of an oral application (e.g., via telephone).

2.4 DEFINITION OF COMPLETED APPLICATION

For Reg B purposes, the application is considered a "completed application" upon receipt of all information needed to provide a decision on the loan. Smartfi defines this date when the following items have been received:

- Fully executed and completed written application package
- Fully executed counseling certificate
- Identification documents including verification of DOB, SSN
- Credit Report
- Income/expense documentation
- Asset documentation
- Power of Attorney/Guardianship paperwork (if applicable)

2.5 RE-APPLICATION REQUIREMENTS

The following guidelines apply to situations when a new loan application is required, and when the original application can continue.

A new application (re-application) is required when:

- Borrower changes product
 - When a borrower makes a decision to change programs, either from an FHA-insured HECM to the CHOICE program (or vice-versa), the existing loan must be adversed and a new application is required.
- Borrower removes him/herself from loan

- When a borrower chooses to remove him/herself from the loan after the initial application, a new application and loan number is required, and a new credit report must be obtained referencing only the remaining borrower.
- Any existing services that have not expired may be used for the new loan including the appraisal and reverse mortgage counseling certificate.

The initial application can continue as follows:

- Death of a borrower: A borrower or co-borrower dies during the processing of the loan prior to closing.
- A death certificate must be provided and added to the file.
- Co-Borrower added after Initial Application: A co-borrower is being added to the loan after initial application.
 - The new co-borrower must sign all existing application documents and disclosures required for initial application. The application must be dated with the date that the co-borrower signs the application, not the date the original borrower executed their application.
- A letter of explanation (LOX) from the borrower must be added to the file explaining why there is an addition of the co-borrower.
- Co-borrower must receive counseling and provide a fully executed certificate.

2.6 GOOD FAITH ESTIMATE (GFE)

The timing on when a GFE can be generated is based upon how the application is taken. Applications may be taken telephone, face to face, mail, fax, e-mail, or Internet.

Application taken by Telephone, Face-to-Face, Mail, Fax, or E-mail

- When all data elements and the intent to proceed are received over the telephone or internet, the application date for initial disclosure timing is that day, application disclosures including a GFE can then be sent to the borrower(s).
- When an application is taken face-to-face (data elements and intent not received over the phone) then the GFE should not be included with the application docs. After the data is received, the GFE should then be printed and sent to the borrower(s). The application date for RESPA purposes is the date of the face-to-face interview. If the MLO has the ability to print documents during the face-to-face interview, then a GFE can be issued the same day. If the MLO does not have the ability to print documents during the face-to-face interview, then the GFE must be printed and mailed within 3 business days.
- A GFE cannot be sent with a Mail, Fax, or E-mail application (sent blank), since data elements have not been obtained. Upon receiving a completed and signed application package, the GFE should then be printed and sent to the borrower(s). This must occur within 3 business days of receipt of the signed application package.
- Print dates will be verified to ensure compliance.

- For RESPA purposes GFE’s printed prior to the initial application date (may be different than date on loan application) or outside of the three-day window are considered an incurable error and the file cannot proceed.

3. PROGRAM ELIGIBILITY

3.1 MINIMUM BORROWER AGE REQUIREMENT

Eligible borrowers are persons of eligible age* as defined by product and state at the time of closing. An initial application may be taken 60 days prior to the borrower (s) turning the eligible age* but the loan cannot close until that date.

Eligible Age for CHOICE FIXED by State

Eligible Age*	States
55	AZ, CA, CO, DC, FL, GA, ID, IL, IN, MI, MT, NM, OH, OR, PA, SC, UT
60	AL, LA, NJ, OK, WA
62	NC, TX, all other state where product is available

3.2 QUALIFYING BORROWER

The qualifying borrower is the youngest individual applicant.

3.3 ELIGIBLE BORROWER TYPES

- US Citizen
- **Permanent Resident Alien:** A permanent resident alien is a person who is not a United States citizen but is legally able to maintain permanent residency and employment in the United States. A permanent resident alien may be eligible as a borrower, if the borrower is a holder of an alien registration card (green card) with a valid Social Security Number.
- **Non-Permanent Resident Alien:** A non-citizen who holds employment in the United States but does not have a green card.
- A borrower who is a non-permanent resident alien may be eligible provided:
 - the borrower has a valid Social Security Number (SSN), except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD.

- the borrower is eligible to work in the U.S., as evidenced by the Employment Authorization Document issued by the USCIS; and
- the borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

A borrower residing in the U.S. by virtue of refugee or asylum status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylum status must be obtained. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

Inter Vivos Revocable Trust: An inter vivos revocable trust that has an ownership interest in the security property is an eligible borrower.

3.4 INELIGIBLE BORROWER TYPES

Foreign National: A foreign national is a person who is not a United States citizen and who lives and works outside the United States.

Limited Partnership, General Partnership, Corporation, or the like: Business entities that are separate and distinct from individual ownership.

Non-Occupant Co-Borrower: A non-occupant co-borrower is an individual who will not be living in the subject property, but whose profile has been used to qualify for the loan. Although the co-borrower does not occupy the subject property, s/he is jointly responsible (with the primary borrower) for repaying the loan.

Non-Borrower Spouse: The NBS is defined as the spouse of the reverse mortgage borrower determined by the law of the state in which the spouse and borrower reside or the state of which they were married.

Other Non-Borrower Persons: All individuals vested on Final Title must be a borrower on the loan.

Irrevocable Trust: An irrevocable trust cannot be changed or canceled once it is set up without the consent of the beneficiary. Contributions cannot be taken out of the trust by the grantor.

3.5 IDENTIFICATION REQUIREMENTS

In compliance with Section 326 of the USA PATRIOT Act which requires U.S. financial institutions to verify the identity of a customer when opening an account, lender/originator must obtain identifying documentation from each borrower. Lender/originator must also verify the borrower(s) date of birth and Social Security Number.

Acceptable identification (ID), as follows:

- State issued driver's license
- State issued ID card
- Military ID card
- Passport
- U.S. Alien Registration Card
- Birth Certificate
- Written verification from the Social Security Administration Evidence of Social Security Number
- Social Security card (plastic or metal cards are not acceptable)
- Social Security 1099
- Form W2 or 1098
- Written verification from the Social Security Administration

3.6 ALTERNATE CONTACT

Contact information for the borrower's alternate contact/nearest living relative must be obtained, as follows:

- First name and last name
- Address
- Phone number (cannot be the same as the borrower's phone number)
- Relationship to Borrower(s)

Note: The alternate contact may reside with the borrower at the subject property address; however, the alternate contact's phone number must be different than the borrower's phone number.

3.7 MULTIPLE LOANS FOR THE SAME BORROWER

A borrower may only have one outstanding reverse mortgage at any time, whether it is an FHA-insured Home Equity Conversion Mortgage (HECM) or a proprietary reverse mortgage.

3.8 OWNERSHIP INTERESTS

Title must be in the borrower's name:

- At the time of application for a refinance transaction, and
- At the time of closing for all transactions.

Exceptions:

- The title is vested in the name of a business or corporation whereby the borrower has full ownership. Must be in borrower(s) name at closing.
- The borrower is a beneficiary from an estate or trust vested on title. Must be in borrower(s) name at closing.
- The borrower is the spouse of the current vested owner. Must be in borrower(s) name at closing.

Note: A family deed transfer between legally married couples or immediate family members is permitted, and the transfer may be executed at closing. Immediate family members consist of children and siblings.

3.9 OCCUPIED PRIMARY RESIDENCE

- A primary residence is defined as a borrower spending at least 183 days of the calendar year at the subject property.
- Non-owner occupied, and investment properties are not permitted.

3.10 OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

- An OFAC report is required for all borrowers.
- If a party to the loan is found to be on the OFAC list, the loan is ineligible under this program.

3.11 CAIVRS (CREDIT ALERT VERIFICATION REPORTING SYSTEM)

CAIVRS is a federal government database of delinquent federal debtors. The database also reports if the individual has had a claim paid by a reporting agency.

- A CAIVRS report must be pulled on every borrower, the CAIVRS report may not be older than 90 days at the time of underwriting and 120 days at closing.
- If CAIVRS screening indicates that the borrower is presently delinquent or has had a claim paid within the previous 3 years on a loan made or insured by FHA on his or her behalf, the borrower is not eligible unless FHA suspends the CAIVRS listing.

If a delinquent Federal Debt is reflected in CAIVRS, Smartfi must verify the validity and delinquency status of the debt by contacting the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report.

If the creditor agency confirms that the debt is valid and in delinquent status, then the Borrower is ineligible for the Choice Product until the Borrower resolves the debt with the creditor agency in accordance with the Debt Collection Improvement Act.

The creditor agency that is owed the debt can verify that the debt has been resolved in accordance with the Debt Collection Improvement Act. Smartfi must include documentation from the creditor agency to support the verification and resolution of the debt. For debt reported through CAIVRS, Smartfi may obtain evidence of resolution.

3.12 BENEFIT TO BORROWER TEST

All reverse mortgage refinances must provide a clear benefit to the borrower(s). To confirm a benefit, the loan must pass BOTH the Closing Cost Test and the Loan Proceeds Test.

3.12.1 CLOSING COST TEST

The increase in Principal Limit must equal or exceed five (5) times the closing costs paid by the borrower in order to pass the Closing Cost Test.

For example:

Eligible Borrower	
Closing Costs	\$6,700
Principal Limit Increase	\$33,500
Refinance Factor	5.0

3.12.2 LOAN PROCEEDS TEST

In order to pass the Loan Proceeds Test the Available Benefit Amount from the new CHOICE loan, defined as the amount of proceeds (Principal Limit) that is available to the borrower after deducting the prior refinanced loan balance AND the closing costs paid by the borrower(s) on the CHOICE loan, must equal or exceed 5% of the refinanced Principal Limit amount.

3.12.3 ALTERNATIVES TO THE BENEFITS TEST

On a case-by-case basis, at written request of the borrower(s), an exception to the above Benefits Test may be granted only if a clear benefit can be demonstrated. All exceptions to the benefits test above must be reviewed and approved by the Lender.

The written request must state the following:

- Their benefit is less than five (5) times the amount of their closing costs and/or their available loan proceeds do not increase by at least 5%.
- Indicate they still wish to move forward with the loan.
- Demonstrate a benefit to the borrower(s) by proceeding with the transaction.

Examples of Acceptable Benefits are below (must receive approval):

- Adding an eligible spouse to the loan;
- Reducing the interest rate by a minimum of 1% from previous transaction (proceeds cannot decrease and borrower cannot bring funds to close).
- Receiving in excess of \$20,000 in net proceeds needed by borrower(s) for current financial hardship.
- Other Benefits to borrower as demonstrated in the written request.

3.12.4 SEASONING REQUIREMENTS

The existing Proprietary reverse mortgage being refinanced must have closed and disbursed a minimum of eighteen (18) months prior to the CHOICE disbursement date. No exceptions allowed.

The existing HECM reverse mortgage being refinanced must have closed and disbursed a minimum of twelve (12) months prior to the CHOICE disbursement date.

On a case-by-case basis, at written request of the borrower(s), an exception to the seasoning requirements may be granted only if a clear benefit can be demonstrated. All exceptions to the seasoning requirements must be reviewed and approved by the Lender.

The written request must state the following:

- Acknowledge 12 months have not elapsed since the previous reverse mortgage closed and disbursed.
- Indicate they still wish to move forward with the loan.
- Demonstrate a benefit to the borrower(s) by proceeding with the transaction.
-

4. FINANCIAL ASSESSMENT- CREDIT HISTORY

The Lender must evaluate borrower(s) willingness and capacity to meet their financial obligations and to comply with the mortgage requirements.

4.1 CREDIT SCORE

- The minimum qualifying credit score is 600 for all borrowers.
- For minimum qualifying credit scores between 600-640, additional credit requirements apply.
- The qualifying credit score is determined by taking the middle score from all three (3) repositories reporting. For this example, the score used to qualify is 720.

Example:

Experian	720
TransUnion	740
Equifax	680

- If there are two (2) borrowers on the loan application, both borrowers must have a minimum qualifying credit score of 600.
- If a borrower only has 2 credit scores reporting, the lowest score will be used.
- If a borrower only has 1 credit score reporting, that score will be used.
- If a qualifying borrower does not have a score due to lack of established credit, he/she will not be eligible for the CHOICE program.

4.2 CREDIT/PROPERTY CHARGE REVIEW

Includes review of public records concerning property, mortgages, property tax payments and property charges (HOA/Condo/PUD fees, ground rent and other assessments)

4.3 STATE/FEDERAL TAX LIENS

Any open state or federal tax lien appearing on the credit report must be satisfied.

- Evidence of payment in full, if paid prior to settlement; or
- Payoff statement, if paid at settlement

4.4 BANKRUPTCY

Chapter 7,11,13: Must be discharged (3) years from loan application date.

4.5 FORECLOSURE/LOSS MITIGATION

No foreclosures on any property, in past three (3) years of loan application date.

Borrowers with any history of the following are not eligible unless there is at least a minimum of two (2) years re-established credit history:

- Multiple bankruptcies -two (2) or more
- Loan modification

- Short sale
- Deed-in lieu of foreclosure

4.6 MORTGAGE HISTORY

Mortgage history, on the subject property (if applicable), must reflect the following, if applicable:

- 0x30 in last 12 months
- 2x30, 0x60 in the last 24 months

4.7 PROPERTY TAXES

All property charges must be current and there are no property tax arrearages. In addition, no more than:

- 1x30 in last 24 months

4.8 HOA HISTORY

HOA, condominium, or PUD fees (for all properties owned) are current at closing, and no notice of default or HOA liens issued.

4.9 QUALIFYING CREDIT SCORE BELOW 640

When the qualifying credit score is below 640, the following additional criteria apply:

- No major derogatory credit within the previous 12 months of credit report.
- All accounts reporting on credit report must be current.

For the purpose of this section, Major Derogatory credit shall include:

- Any payments on Revolving or Installment Debt that are 90 days or more after the due date (1x90), or three or more payments 60 days or more after the due date (3x60).
- Non-medical collections or charge offs in excess of \$2,000 within the past 24 months.

5. FINANCIAL ASSESSMENT -CASH FLOW/RESIDUAL INCOME ANALYSIS

5.1 GENERAL INCOME REQUIREMENTS

Effective Income refers to income that may be used in the calculation of residual income. Effective income must be reasonably likely to continue through at least the first three years of the mortgage. The lender must document the borrower's income and employment history, verify the accuracy of the amounts of income being reported, and determine if the income can be considered as effective income in accordance with the requirements listed below. The lender is only required to verify the amount of income needed to qualify under the Residual Income Test.

The lender may only consider income if it is legally derived and, when required, properly reported as income on the borrower's tax returns.

Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

5.2 GROSSING UP NON-TAXABLE INCOME

The cash flow/residual income analysis will take into account Federal taxes. If no Federal taxes are paid on some or all of a borrower's income, it will be reflected in the expense analysis for residual income. Non-taxable income, therefore, may not be "grossed up."

5.3 EMPLOYMENT RELATED INCOME-GENERAL

Employment Income refers to income received as an employee of a business that is reported on IRS Form W-2. The lender may use employment related income as effective income in accordance with the standards provided for each type of employment related income.

For all employment related income, the lender must verify the borrower's most recent two years of employment and income, and document using one of the methods below.

In assessing employment income lenders must recognize that many borrowers may have primary employment of less than 40 hours per week or may have recently returned to the workforce following retirement.

5.4 TRADITIONAL CURRENT EMPLOYMENT DOCUMENTATION

The lender must obtain the most recent paystubs covering a minimum of 30 consecutive days that show the borrower's year-to-date earnings, and one of the following to verify current employment:

- A written Verification of Employment (VOE) covering two (2) years; or
- An electronic verification covering the same time period.

Re-verification of employment must be completed within ten (10) days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.

5.5 ALTERNATIVE CURRENT EMPLOYMENT DOCUMENTATION

If using alternative documentation, the lender must obtain:

- Copies of the paystubs covering the most recent 30 consecutive day period (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive days) that show the borrower's year-to-date earnings.
- Copies of the original IRS W-2 forms from the previous two (2) years; and
- Document current employment by telephone, sign and date the verification documentation, and note the name, title, and telephone number of the person with whom employment was verified.
- Re-verification of employment must be completed within 10 days prior to mortgage disbursement. Verbal re-verification of employment is acceptable.

5.6 PAST EMPLOYMENT DOCUMENTATION

Direct verification of the borrower's employment history for the previous two years is not required if all of the following conditions are met:

- Current employer confirms a two (2) year employment history, or a paystub reflects a hiring date.
- Only base pay is used in calculating effective income (no overtime or bonuses); and
- Borrower(s) execute IRS Form 4506T, Request for Copy of Tax Return, or IRS Form 8821, Tax Information Authorization, for the previous two (2) tax years.

If the borrower has not been employed with the same employer for the previous two (2) years and/or not all conditions immediately above can be met, then the lender must obtain one or a combination of the following for the most recent two (2) years to verify the borrower's employment history:

- W-2(s).
- VOE(s).
- Acceptable electronic verification; or
- evidence supporting enrollment in school or the military during the most recent two full years

5.7 CALCULATION OF EFFECTIVE INCOME SALARY

For employees who are salaried and whose income has been and will likely be consistently earned, the lender must use the current salary to calculate effective income.

5.8 CALCULATION OF EFFECTIVE INCOME HOURLY

For employees who are paid hourly, and whose hours do not vary, the lender must consider the borrower's current hourly rate to calculate effective income.

For employees who are paid hourly and whose hours vary, the lender must average the income over the previous two years. If the lender can document an increase in the pay rate the lender may use the most recent 12-month average of hours at the current pay rate.

5.9 PART TIME INCOME

Part-Time Employment refers to employment that is not the borrower's primary employment and is generally performed for less than 40 hours per week. The lender may use part-time income as effective income if the borrower has worked a part-time job uninterrupted for the past two years and the current position is reasonably likely to continue.

The lender must average the income over the previous two years. If the lender can document an increase in the pay rate the lender may use a 12- month average of hours at the current pay rate.

5.10 OVERTIME AND BONUS INCOME

Overtime and Bonus Income refers to income that the borrower receives in addition to the borrower's normal salary. The lender may use overtime and bonus income as effective income if the borrower has received this income for the past two years and it is reasonably likely to continue.

Periods of overtime and bonus income less than two years may be considered effective income if the lender documents that the overtime and bonus income has been consistently earned over a period of not less than one year and is reasonably likely to continue.

5.10.1 CALCULATING OVERTIME AND BONUS INCOME

For employees with bonus or overtime income, the lender must average the income earned over the previous two years to calculate effective income.

Note: If income is declining, then the lesser of the declining income or averaged income must be used. If declining lender must determine if income is stabilized.

5.11 SEASONAL INCOME

Seasonal Employment refers to employment that is not year-round, regardless of the number of hours per week the borrower works on the job. The lender may consider seasonal employment as effective income if the borrower has worked the same line of work for the past two years and is reasonably likely to be rehired for the next season.

The lender may consider unemployment income as effective income for those with effective seasonal employment income.

For seasonal employees with unemployment income, the lender must document the unemployment income for two (2) full years and there must be reasonable assurance that this income will continue.

5.11.1 CALCULATING SEASONAL INCOME

For employees with seasonal income, the lender must average the income earned over the previous two full years to calculate effective income.

5.12 INCOME FROM EMPLOYMENT WITH FAMILY-OWNED BUSINESS

Family-Owned Business Income refers to income earned from a business owned by the borrower's family, but in which the borrower is not an owner.

The lender may consider family-owned business income as effective income if the borrower is not an owner in the family-owned business.

The lender must verify and document that the borrower is not an owner in the family-owned business by using official business documents showing the ownership percentage.

Official business documents include corporate resolutions or other business organizational documents, business tax returns or Schedule K-1(IRS Form 1065), or an official letter from a certified public accountant on their business letterhead.

In addition to traditional or alternative documentation requirements, the lender must obtain copies of signed personal tax returns or tax transcripts.

5.12.1 CALCULATING SALARIED INCOME

For employees who are salaried and whose income has been and will likely continue to be consistently earned, the lender must use the current salary to calculate effective income.

5.12.2 CALCULATING HOURLY INCOME

For employees who are paid hourly, and whose hours do not vary, the lender must consider the borrower's current hourly rate to calculate effective income.

For employees who are paid hourly and whose hours vary, the lender must average the income over the previous two (2) years. If the lender can document an increase in the pay rate the lender may use the most recent 12- month average of hours at the current pay rate.

5.13 COMMISSION INCOME

Commission Income refers to income that is paid contingent upon the conducting of a business transaction or the performance of a service.

The lender may use commission income as effective income if the borrower earned the income for at least one (1) year in the same or similar line of work and it is reasonably likely to continue.

For commission income less than or equal to 25 percent (25%) of the borrower's total earnings, the lender must use traditional or alternative employment documentation.

For commission income greater than 25 percent of the borrower's total earnings, the lender must obtain signed tax returns including all applicable schedules, for the last two years. In lieu of signed tax returns from the borrower, the lender may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.

5.13.1 CALCULATING COMMISSION INCOME

The lender must calculate effective income for commission by using the lesser of:

- the average net commission income earned over the previous two (2) years, or the length of time commission income has been earned if less than two years; or
- the average net commission income earned over the previous one (1) year.
- The lender must calculate net commission income by subtracting the unreimbursed business expenses from the gross commission income.

The lender must reduce the effective income by the amount of any unreimbursed employee business expenses, as shown on the borrower's Schedule A.

5.14 SELF EMPLOYED INCOME

Self-Employment Income refers to income generated by a business in which the borrower has a 25 percent (25%) or greater ownership interest.

There are four basic types of business structures. They include:

- Sole Proprietorships,
- Corporations
- Limited Liability or "S" Corporations, and
- Partnerships

The lender may consider self-employed borrower income if the borrower has been self-employed for at least two (2) years.

If the borrower has been self-employed between one and two years, the lender may only consider the income as effective income if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least two (2) years.

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from businesses shows a greater than 20 percent (20%) decline in effective income over the analysis period, the lender must document that the business income is now stable.

A lender may consider income as stable after a 20 percent (20%) reduction if the lender can document the reduction in income was the result of an extenuating circumstance, and the borrower can demonstrate the income has been stable or increasing for a minimum of 12 months.

5.14.1 REQUIRED DOCUMENTATION FOR SELF-EMPLOYED INCOME

The lender must obtain complete federal income tax returns, including all schedules.

The lender must obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.

The lender must obtain a year-to-date profit and loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the borrower. A balance sheet is not required for self-employed borrowers filing Schedule C income.

If income used to calculate residual cashflow exceeds the two (2) year average of tax returns, an audited P&L or signed quarterly tax return obtained from IRS is required.

Note: We must obtain a business credit report for all corporations and "S" corporations.

5.14.2 CALCULATING SELF-EMPLOYED INCOME

The lender must analyze the borrower's tax returns to determine gross self-employment income. The lender must calculate gross self-employment income by using the lesser of:

- The average gross self-employment income earned over the previous two (2) years; or
- The average gross self-employment income earned over the previous one (1) year.

5.15 FREQUENT CHANGES IN EMPLOYMENT

If the borrower has changed jobs more than three (3) times in the previous 12-month period, or has changed lines of work, the lender must take additional steps to verify and document the stability of the borrower's employment income. The lender must obtain:

- transcripts of training and education demonstrating qualification for a new position; or
- employment documentation evidencing continual increases in income and/or benefits

5.16 GAPS IN EMPLOYMENT

For borrowers with gaps in employment of six (6) months or more (an extended absence), the lender may consider the borrower's current income as effective income if it can verify and document that:

- the borrower has been employed in the current job for at least six (6) months at the time of application; and
- a two (2) year work history prior to the absence from employment using standard or alternative employment verification

5.17 TEMPORARY REDUCTION IN INCOME

For borrowers with a temporary reduction of income due to a short-term disability or similar circumstance, the lender may consider the borrower's current income as effective income, if it can verify and document that:

- The borrower intends to return to work.
- the borrower has the right to return to work; and
- The borrower can meet their financial obligations taking into account any reduction of income due to the circumstance.

5.18 NON-EMPLOYMENT SOURCES OF INCOME

The lender must verify and document any income used in the cash flow/residual income from the following sources:

- rental income;
- disability benefits;
- pension/retirement benefits (based on period of continuance);
- annuity income;
- Department of Veterans Affairs (VA) Benefits;
- Social Security, disability, workman's compensation, and
- interest, dividend and trust income

5.19 DISABILITY BENEFITS

Disability benefits refer to benefits received from the SSA, Department of Veterans Affairs (VA), or a private disability insurance provider.

Lender must verify and document the borrower's receipt of benefits from the SSA, VA, or private disability insurance provider. Must obtain:

- a copy of the last Notice of Award letter which states the SSA's or private disability insurer's
- determination on the borrower's eligibility for disability benefits; or
- equivalent documentation that establishes award benefits to the borrower.

If any disability income is due to expire within three (3) years from the date of mortgage application, that income cannot be used as effective income. If the Notice of Award or equivalent document does not have a defined expiration date, the lender may consider the income effective and reasonably likely to continue. The lender may not rely upon a pending or current re-evaluation of medical eligibility for benefit payments as evidence that the benefit payment is not reasonably likely to continue.

Under no circumstance may the lender inquire into or request documentation concerning the nature of the disability or the medical condition of the borrower.

5.19.1 SOCIAL SECURITY DISABILITY BENEFITS

For Social Security Disability income, including Supplemental Security Income (SSI), the lender must obtain one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences income from the SSA; or
- a copy of the borrower's Social Security Benefit Statement, Form SSA- 1099/1042S.

5.19.2 VETERANS AFFAIRS DISABILITY BENEFITS

For VA disability benefits, the lender must obtain a copy of the veteran's last Benefits Letter showing the amount of the assistance, and one of the documents:

- federal tax returns; or
- The most recent bank statement evidencing receipt of income from the VA

If the Benefits Letter does not have a defined expiration date, Lenders may consider the income effective and likely to continue for at least three years.

5.19.3 PRIVATE DISABILITY BENEFITS

For private disability benefits, the lender must obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any.

5.19.4 CALCULATING DISABILITY INCOME

The lender must use the most recent amount of benefits received to calculate effective income.

5.20 ALIMONY, CHILD SUPPORT MAINTENANCE INCOME

Alimony, Child Support, or Maintenance Income refers to income received from a former spouse or partner or from a non-custodial parent of the borrower's minor dependent.

The lender must obtain a fully executed copy of the borrower's final divorce decree, legal separation agreement, or court order with documented receipt.

When using a final divorce decree, legal separation agreement or court order, the lender must obtain evidence of receipt using deposits on bank statements, canceled checks, or documentation from the child support agency for the most recent three (3) months that supports the amount used in qualifying.

The lender must provide evidence that the claimed income will continue for at least three (3) years.

5.20.1 CALCULATING ALIMONY, CHILD SUPPORT MAINTENANCE INCOME

When using a final divorce decree, legal separation agreement or court order, if the borrower has received consistent alimony, child support or other maintenance payments for the most recent three months, the lender may use the current payment to calculate effective income.

If the alimony, child support or other maintenance payments have not been consistently received for the most recent six (6) months, the lender must use the average of the income received over

the previous two (2) years to calculate effective income. If alimony, child support or maintenance income has been received for less than two (2) years, the lender must use the average over the time of receipt.

5.21 MILITARY INCOME

Military Income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including:

- base pay,
- Basic Allowance for Housing,
- clothing allowances,
- flight or hazard pay,
- Basic Allowance for Subsistence, and
- proficiency pay.

The lender may not use education benefits as effective income.

The lender must obtain a copy of the borrower's military Leave and Earnings Statement (LES). The lender must verify the Expiration Term of Service date on the LES. If the Expiration Term of Service date is within the first 12 months of the mortgage, military income may only be considered effective income if the borrower represents their intent to continue military service.

5.21.1 CALCULATING MILITARY INCOME

The lender must use the current amount of military income received to calculate effective income.

5.22 AUTOMOTIVE ALLOWANCES

Automobile Allowance refers to the funds provided by the borrower's employer for automobile related expenses.

The lender must verify and document the automobile allowance received from the employer for the previous two (2) years.

The lender must also obtain IRS Form 2106, Employee Business Expenses, for the previous two years.

5.22.1 CALCULATING AUTOMOTIVE ALLOWANCES INCOME

The lender must determine the portion of the allowance that can be considered effective income.

The lender must subtract automobile expenses as shown on IRS Form 2106 from the automobile allowance before calculating effective income based on the current amount of the allowance received.

If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to income.

Expenses that must be treated as recurring debt include:

- the borrower's monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.

Automobile Allowance refers to the amount of the automobile allowance that exceeds the borrower's actual automobile expenditures.

5.23 SOCIAL SECURITY RETIREMENT INCOME

Social Security Retirement Income refers to income received from the SSA other than disability income.

Lender must verify and document the borrower's receipt of income from the SSA. Obtain any one of the following documents:

- federal tax returns;
- the most recent bank statement evidencing receipt of income from the SSA;
- a Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter" that evidences
- income from the SSA; or
- a copy of the borrower's Social Security Benefit Statement, SSA Form- 1099/1042S.
- If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective if it will begin within 60 days of closing.

5.23.1 CALCULATING SOCIAL SECURITY RETIREMENT INCOME

The lender must use the current amount of Social Security income received to calculate effective income.

5.24 PENSION INCOME

Pension refers to income received from the borrower's former employer(s).

Lender must verify and document the borrower's receipt of periodic payments from the borrower's pension and that the payments are likely to continue for at least three years.

Obtain any one of the following documents:

- 1099 with distribution code 7
- federal tax returns;
- the most recent bank statement evidencing receipt of income from the former employer; or
- a copy of the borrower's pension/retirement letter from the former employer

NOTE: If the source of pension income is from the federal government including the Department of Veterans Affairs, then evidence of 3 year continuance is not required.

5.24.1 CALCULATING PENSION INCOME

The lender must use the current amount of pension income received to calculate effective income.

5.25 INDIVIDUAL RETIREMENT ACCOUNT AND 401 (K) INCOME

An Individual Retirement Account (IRA/401(k)) Income refers to income received from an individual retirement account.

Lender must verify and document the borrower's receipt of recurring IRA/401(k) distribution income and that it is reasonably likely to continue for three years.

Obtain the most recent IRA/401(k) statement and any one of the following documents:

- federal tax returns; or
- the most recent bank statement evidencing receipt of income.

5.25.1 CALCULATING INDIVIDUAL RETIREMENT ACCOUNT AND 401 (K) INCOME

Borrowers with IRA/401(k) income that has been and will be consistently received, the lender must use the current amount of IRA/401(k) income received to calculate effective income.

For borrowers with fluctuating IRA/401(k) income lender must use the average of the IRA/401(k) income received over the previous two (2) years to calculate effective income.

If IRA/401(k) income has been received for less than two years, lender must use the average over the time of receipt.

5.26 RENTAL INCOME FROM THE SUBJECT PROPERTY

Rental Income from the Subject Property refers to income received when the subject property has 2-4 units.

Note: this is not allowed if property is considered a second home.

Lender may consider rental income from existing and prospective tenants if documented in accordance with the following requirements.

5.26.1 LIMITED OR NO HISTORY OF RENTAL INCOME

Where the borrower does not have a history of rental income from the subject property since the previous tax filing:

- Must verify and document the proposed rental income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report) and the prospective leases, if available.
- For properties with less than two years of rental income history, lender must document the date of acquisition by providing the deed, Settlement Statement, or other legal document.

5.26.2 HISTORY OF RENTAL INCOME

Where the borrower has a history of rental income from the subject property since the previous tax filing, the lender must verify and document the existing rental income by obtaining:

- The current lease; AND
- Most recent two (2) years tax returns, including Schedule E

5.26.3 CALCULATING RENTAL INCOME FROM THE SUBJECT PROPERTY

Must add the net subject property rental income to the borrower's gross income.

5.26.4 LIMITED OR NO HISTORY OF RENTAL INCOME

To calculate the effective income from the subject property where the borrower does not have a history of rental income from the subject property since the previous tax filing, lender must use the lesser of:

- the monthly operating income reported on Fannie Mae Form 216, or

- 75 percent (75%) of the lesser of:
- fair market rent reported by the appraiser; or
- the rent reflected in the lease or other rental agreement.

5.26.5 HISTORY OF RENTAL INCOME

Lender must calculate the rental income by averaging the amount shown on Schedule E. Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two (2) years, the lender must annualize the rental income for the length of time the property has been owned.

5.27 RENTAL INCOME – OTHER REAL ESTATE HOLDINGS

Rental income from other real estate holdings may be considered effective income if the documentation requirements listed below are met. The lender must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent.

5.27.1 LIMITED OR NO HISTORY OF RENTAL INCOME

Where the borrower does not have a history of rental income since the previous tax filing, including property being vacated by the borrower, the lender must obtain an appraisal evidencing market rent and that the borrower has at least 25 percent equity in the property. The appraisal is not required to be completed by an FHA Roster appraiser.

5.27.2 TWO TO FOUR UNITS

Lender must verify and document the proposed rental income by obtaining an appraisal showing fair market rent (use Fannie Mae Form 1025, Small Residential Income Property Appraisal Report) and the prospective leases if available.

5.27.3 ONE UNIT

Lender must verify and document the proposed rental income by obtaining a Fannie Mae Form 1004, Uniform Residential Appraisal Report, Fannie Mae Form 1007, Single Family Comparable Rent Schedule, and Fannie Mae Form 216, Operating Income Statement, showing fair market rent and, if available, the prospective lease.

5.27.4 HISTORY OF RENTAL INCOME

Lender must obtain the borrower's last two (2) years tax returns with Schedule E.

5.27.5 CALCULATING INCOME WITH LIMITED OR NO HISTORY OF RENTAL INCOME

To calculate the effective net rental income from other real estate holdings where the borrower does

not have a history of rental income since the previous tax filing, the lender must deduct the principal, interest, taxes and insurance payment (PITI) from the lesser of:

- The monthly operating income reported on Fannie Mae Form 216, or
- 75 percent of the lesser of:
 - Fair market rent reported by the appraiser; or
 - The rent reflected in the lease or other rental agreement.

5.27.6 CALCULATING INCOME WITH HISTORY OF RENTAL INCOME

Lender must calculate the net rental income by averaging the amount shown on Schedule E provided the borrower continues to own all properties included on Schedule E.

Depreciation shown on Schedule E may be added back to the net income or loss.

If the property has been owned for less than two years, the lender must annualize the rental income for the length of time the property has been owned.

For properties with less than two years of rental income history, the lender must document the date of acquisition by providing the deed, Settlement Statement, or other legal document.

Positive net rental income must be added to the borrower's effective income. Negative net rental income must be included as a debt/liability.

5.28 INCOME FROM BOARDERS OF THE SUBJECT PROPERTY

Boarder refers to an individual renting space inside the borrower's dwelling unit.

Rental income from boarders is only acceptable if the borrower has a two-year history of receiving income from boarders that is shown on the tax return and the borrower is currently receiving boarder income.

Lender must obtain two (2) years of the borrower's tax returns, evidencing income from boarders and the current lease.

5.28.1 CALCULATING RENTAL INCOME FROM BOARDERS

Lender must calculate the effective income by using the lesser of the two-year average or the current lease.

5.29 INVESTMENT INCOME

Investment Income refers to interest and dividend income received from assets such as certificates of deposits, mutual funds, stocks, bonds, money markets, and savings and checking accounts.

Lender must verify and document the borrower's Investment Income by obtaining tax returns for the previous two years and the most recent account statement.

5.29.1 CALCULATING INVESTMENT INCOME

The lender must calculate Investment Income by using the lesser of:

- the average Investment Income earned over the previous two (2) years; or
- the average Investment Income earned over the previous one (1) year

Lender must subtract any of the assets used for the required cash to close from the borrower's liquid assets prior to calculating any interest or dividend income.

5.30 CAPITAL GAINS AND LOSSES

Capital gains refers to is a profit that results from a disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition exceeds the purchase price.

Capital losses refers to a loss that results from the disposition of a capital asset, such as stock, bond or real estate, where the amount realized on the disposition is less than the purchase price.

Capital gains or losses must be considered when determining effective income, when the individual has a constant turnover of assets resulting in gains or losses.

Three (3) years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as effective income, or
- consistently shows a loss, it must be deducted from the total income.

6. EXPECTED INCOME

Expected Income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement that has not been, but will be received within 60 Days of mortgage closing.

Lender may consider Expected Income as effective income except when expected income is to be derived from a family-owned business.

Lender must verify and document the existence and amount of expected income with the employer in writing and that it is guaranteed to begin within 60 Days of mortgage closing. For expected

retirement income, the lender must verify the amount and that it is guaranteed to begin within 60 Days of the mortgage closing.

6.1 CALCULATING EXPECTED INCOME

Expected Income is calculated in accordance with the standards for the type of income being received. The lender must also verify that the borrower will have sufficient income to meet his or her financial obligations between mortgage closing and the start of employment.

6.2 TRUST ACCOUNTS INCOME

Trust Income refers to income that is regularly distributed to a borrower from a trust.

Lender must verify and document the existence of the Trust Agreement or other trustee statement. The lender must also verify and document the frequency, duration, and amount of the distribution by obtaining a bank statement or transaction history from the bank.

Lender must verify that regular payments will continue for at least the first three years of the mortgage term.

6.2.1 CALCULATING TRUST ACCOUNTS INCOME

Lender must use the income based on the terms and conditions in the Trust Agreement or other trustee statement to calculate effective income.

6.3 ANNUITIES OR SIMILAR INCOME

Annuity Income refers to a fixed sum of money periodically paid to the borrower from a source other than employment.

Lender must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three (3) years of the mortgage. The lender must also obtain a bank statement or a transaction history from a bank evidencing receipt of the annuity.

6.3.1 CALCULATING ANNUITIES AND SIMILAR INCOME

Lender must use the current rate of the annuity to calculate effective income.

6.4 NOTES RECEIVABLE INCOME

Notes Receivable Income refers to income received by the borrower as payee or holder in due course of a note.

Lender must verify and document the existence of the note. The lender must also verify and document the payments have been consistently received for the previous 12 months by obtaining tax returns, deposit slips or cancelled checks and that such payments are guaranteed to continue for the first three (3) years of the mortgage.

6.4.1 CALCULATING NOTES RECEIVABLE INCOME

For borrowers who have been and will be receiving a consistent amount of notes receivable income, lender must use the current rate of income to calculate effective income. For borrowers whose notes receivable income fluctuates, the lender must use the average of the notes receivable income received over the previous year to calculate effective income.

6.5 OTHER PUBLIC ASSISTANCE

Public assistance refers to income received from government assistance programs.

Lenders must verify and document the income received from the government agency. If any public assistance income is due to expire within three years from the date of the mortgage application, that income cannot be used as effective income. If the documentation does not have an expiration date, the Lender may consider the income effective and reasonably likely to continue.

6.5.1 CALCULATING OTHER PUBLIC ASSISTANCE INCOME

The Lender must use the current rate of public assistance received to calculate effective income.

6.6 GOVERNMENT ASSISTANCE NON-CASH BENEFITS

The Lender may count as income non-cash benefits being received by the borrower(s) through federal, state or local government programs, e.g., Supplemental Nutritional Assistance Program (SNAP), energy assistance, etc. In determining whether such benefits may be counted as income the Lender must:

- verify that the benefits are being received at the time of loan application, or that an award letter has been issued, and benefits will begin to be received within 60 days. Lenders may not count benefits for which the mortgagor is potentially eligible and intends to apply,
- verify that the benefits are not subject to any stated termination date other than one related to the death of the mortgagor or the sale of the property and

- verify that approval of the reverse mortgage will not jeopardize continued eligibility for the benefits, e.g., reverse mortgage proceeds would trigger disqualification based on program income or asset requirements.
- Some benefit programs may result in a reduction in the mortgagor’s expenses rather than increasing their income (e.g., the mortgagor is charged a lower rate for insurance). In these cases, the reduced amount may be used in calculating expenses and must not be treated as income.

6.7 IMPUTED INCOME FROM ASSET DISSIPATION

Regular income from interest, dividends, or other returns from the borrower’s investments may be included in the calculation of residual income provided that such income is properly documented. Alternatively, lenders may estimate imputed income from dissipation of liquid assets, defined as assets that can be converted to cash within one-year without payment of an IRS penalty, using the applicable discount in the table below. However, lenders may not count the same asset twice (i.e., as a source of interest income and as imputed income from the dissipation of the asset). Lenders may use as imputed income the dissipation of the Proceeds from the subject loan net of all costs, fees, and amounts paid at closing to all parties other than the borrower.

Liquid asset sources from which imputed income may be calculated include, but are not limited to the following:

Asset Source	Amount To Be Counted
Savings and Checking Accounts, Certificates of Deposit, Roth IRAs and any other assets that are not subject to Federal taxes	100%
Other assets that are subject to Federal taxes	85%*
Reverse Mortgage Net Proceeds (Cash to borrower at Closing)	100%

*Lenders may use the borrower’s actual tax rate based on Federal tax returns from the prior tax year if tax rate is lower than 15 percent (15%) or no discount if borrower does not have a Federal tax obligation.

Lenders must calculate the combined value of assets and calculate income from these sources. Divide the total adjusted value by the remaining life expectancy (in months) of the borrower from Loan period 2 in the Assumed Loan Periods for Computations of Total Annual Loan Cost Rates provided.

If the asset is jointly held with another party not obligated for the mortgage, the asset may be counted provided that the borrower provides documentation that the borrower has unrestricted access to that asset.

6.7.1 ASSET DISSIPATION CALCULATION TABLE

The table below demonstrates how to calculate imputed income from liquid assets. The resulting monthly amount should be entered on the financial assessment worksheet to calculate residual income.

Asset Type	Account Value		Value %		Discounted Value
Checking/Savings Certificates of Deposits/Roth IRA and other assets not subject to Federal taxes if dissipated	\$	X	100%	=	\$
Assets subject to federal taxes if dissipated	\$	X	Higher of 85% or [100%-applicable federal tax rate]	=	\$
Reverse Mortgage Net Proceeds (Cash to Borrower at Closing)	\$	X	100%	=	\$
Total Discounted Value					\$
Life Expectancy of Youngest Borrower in Months Life Expectancy in Years x 12 =					mos.
Adjusted Discounted Value ÷ Life Expectancy in month = Total Monthly Income from Assets					\$

Where monthly income from asset dissipation is included in the residual income analysis lenders must attach documentation to the financial assessment worksheet identifying the specific assets used and the calculation of the monthly amount.

6.8 ASSETS – CHECKING AND SAVINGS ACCOUNTS

Checking and savings accounts refer to funds from borrower-held accounts.

If to be considered as part of the financial assessment, the Lender must verify and document the existence of and amounts in the borrower’s checking and savings accounts.

If the borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the borrower has full access to and use of the funds.

Obtain the borrower's most recent statement for each account, showing the previous month's ending balance for the most recent month is required. If the previous month's balance is not shown, the lender must obtain statement(s) for the most recent two (2) months.

6.9 ASSETS – CASH ON HAND

Cash on Hand refers to cash held by the borrower outside of a financial institution.

Lender must verify that the borrower's cash on hand is deposited in a financial institution or held by the escrow/title company.

Lender must verify and document the borrower's cash on hand by obtaining an explanation from the borrower describing how the funds were accumulated and the amount of time it took to accumulate the funds.

Lender must also determine the reasonableness of the accumulation based on the time period during which the funds were saved and the borrower's:

- income stream;
- spending habits;
- documented expenses; and
- history of using financial institutions

6.10 ASSETS – RETIREMENT ACCOUNTS

Retirement Accounts refer to assets accumulated by the borrower for the purpose of retirement.

Lender must obtain the most recent monthly or quarterly statement to verify and document the existence and amounts in the borrower's retirement accounts, the borrower's eligibility for withdrawals, and the terms and conditions for withdrawal from any retirement account.

6.11 ASSETS – STOCKS AND BONDS

Stocks and bonds are investment assets accumulated by the borrower.

Lender must determine the value of stocks and bonds from the most recent monthly or quarterly statement.

If the stocks and bonds are not held in a brokerage account, lender must determine the current value of the stocks and bonds through third party verification. Government-issued savings bonds

are valued at the original purchase price, unless the lender verifies and documents that the bonds are eligible for redemption.

Lender must verify and document the existence of the borrower’s stocks and bonds by obtaining brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is not required.

For stocks and bonds not held in a brokerage account lender must obtain a copy of each stock or bond certificate.

6.12 ASSETS – PRIVATE SAVINGS CLUBS

Private Savings Clubs refer to a non-traditional method of saving by making deposits into a member- managed resource pools. The lender may consider private savings club funds that are distributed to and received by the borrower as an acceptable source of funds.

Lender must verify and document the establishment and duration of the club, and the borrower’s receipt of funds from the club. The lender must also determine that the received funds were reasonably accumulated, and not borrowed.

Lender must obtain the club’s account ledgers and receipts, and verification from the club treasurer that the club is still active.

6.13 EXPENSE ANALYSIS

Using the credit report, Fannie Mae Form 1009, Part VI of URLA or equivalent, most recent Federal and state income tax returns, and other documents that may be available to the lender (e.g., bank statements), the lender must identify all secured and unsecured debts. The lender must calculate:

Federal & state income tax expenses	any other owned property mortgage obligations (debt and property charges);
revolving credit account payments;	FICA/Self Employment tax, as applicable
property charges for the subject property;	estimated utility and maintenance expenses;
alimony and child support payments;	Other obligations described in this Guide.
installment account payments;	

6.13.1 LIENS PAID OFF USING REVERSE MORTGAGE PROCEEDS

Where a lien against the property, such as a mortgage, is being paid off with reverse mortgage proceeds, the monthly payment associated with that lien is not included in the expense analysis.

6.14 GENERAL LIABILITIES AND DEBTS

Lender must determine the borrower's monthly liabilities by reviewing all debts listed on the credit report, Part VI of URLA or equivalent, tax returns, bank statements, and pay stubs. The lender must document the reasons for exclusion of any debt listed on these documents.

All applicable monthly liabilities must be included in the expense analysis. Closed-end debts do not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10-month requirement.

Accounts for which the borrower is an authorized user must be included in an expense analysis unless the lender can document that the borrower is not making payments on the account.

Negative income must be subtracted from the borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration in the expense analysis.

6.15 UNDISCLOSED DEBTS AND INQUIRES

When a debt or obligation is revealed during the application process that was not listed on the mortgage application and/or credit report, the lender must:

- verify the actual monthly payment amount; and
- Include the payment amount in the agreement in the expense analysis.

Lender must obtain a written explanation from the borrower for all inquiries shown on the credit report that were made in the last 90 Days. The lender must document all undisclosed debt and support for its analysis of the borrower's debt.

6.16 FEDERAL DEBT

Federal Debt refers to non-delinquent debt owed to the federal government for which regular payments are being made.

The amount of the required payment must be included in the expense analysis.

Lender must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable.

6.17 ALIMONY, CHILD SUPPORT AND MAINTENANCE

Alimony, child support, and other maintenance are court-ordered or otherwise agreed upon payments.

For alimony, if the borrower's income was not reduced by the amount of the monthly alimony obligation in the lender's calculation of the borrower's gross income, the lender must verify and include the monthly obligation in its calculation of the borrower's debt.

Child support and other maintenance are to be treated as a recurring liability and the lender must include the monthly obligation in the expense analysis.

Lender must obtain the official signed divorce decree, separation agreement, maintenance agreement, or other legal order. The lender must also obtain the borrower's pay stubs covering no less than 28 consecutive days to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support, or other maintenance.

Lender must calculate the borrower's monthly obligation from the greater of:

- the amount shown on the most recent decree or agreement establishing the borrower's payment obligation;
- or the monthly amount of the garnishment.

6.18 DEFERRED OBLIGATIONS

Deferred obligations refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. The lender must verify and include deferred obligations in the expense analysis.

Lender must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the deferred liability. The lender must obtain evidence of the anticipated monthly payment obligation, if available.

Lender must use the actual monthly payment to be paid on a deferred liability, whenever available. If the actual monthly payment is not available for installment debt, the lender must utilize the terms of the debt or five (5) percent of the outstanding balance to establish the monthly payment.

For a student loan, if the actual monthly payment is zero or is not available or reported on the credit report, the lender must utilize 0.5 percent of the outstanding balance to establish the monthly payment.

6.19 INSTALLMENT LOANS

Installment loans refer to loans, not secured by real estate, that require the periodic payment of principal and interest. A loan secured by an interest in a timeshare must be considered an installment loan.

Lender must include the monthly payment shown on the credit report, loan agreement or payment statement in the expense analysis.

If the credit report does not include a monthly payment for the loan, the lender must use the amount of the monthly payment shown in the loan agreement or payment statement.

If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required.

If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the lender must obtain a copy of the loan agreement or payment statement documenting the amount of the monthly payment.

6.20 STUDENT LOANS

Student loan(s) refers to liabilities incurred for educational purposes as documented on the credit report or loan statements. All student loans must be included in the expense analysis for residual income. Regardless of payment status with outstanding loans the lender must use either:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero, OR
- 0.5 percent of the outstanding loan balance, when the monthly payment reported on the borrower(s) credit report is zero

6.21 REVOLVING CHARGE ACCOUNTS

Revolving Charge Accounts refers to a credit arrangement that requires the borrower to make periodic payments but does not require full repayment by a specified point of time.

The lender must include in the expense analysis the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, the lender must use the payment shown on the current account statement or five percent (5%) of the outstanding balance.

Lender must use the credit report to document the terms, balance and payment amount on the account, if available.

Where the credit report does not reflect the necessary information on the charge account, the lender must obtain a copy of the most recent charge account statement or use five percent (5%) of the outstanding balance to document the monthly payment.

6.22 THIRTY (30) DAY ACCOUNTS

If the credit report reflects a 30-day revolving credit account, a monthly payment may be excluded from the Residual Income test if the credit report reflects a perfect payment history since the account was opened.

If the account history reflects any late payment within the past 24 months, a payment must be calculated at five percent (5%) of the current balance.

6.23 COLLECTION ACCOUNTS

A collection account is a borrower's loan or debt that has been submitted to a collection agency by a creditor.

If the credit reports used in the analysis show cumulative outstanding collection account balances of \$2,000 or greater, the lender must:

- verify that the debt is paid in full at the time of or prior to settlement using an acceptable source of funds, or
- verify that the borrower has made payment arrangements with the creditor, or
- if a payment arrangement is not available, calculate the monthly payment using five percent (5%) of the outstanding balance of each collection and include the monthly payment in the expense analysis
- Lender must provide the following documentation:
 - Evidence of payment in full, if paid prior to settlement.
 - Payoff statement, if paid at settlement.
 - Payment arrangement with creditor, if not paid prior to or at settlement.

If the lender uses five percent (5%) of the outstanding balance as the monthly payment, no documentation is required.

Medical Collections do NOT need to be included in the expense analysis.

6.24 CHARGE OFF ACCOUNTS

A Charge-Off Account refers to a borrower's loan or debt that has been written off by the creditor.

Charge-Off Accounts do not need to be included in the expense analysis.

6.25 STATE TAX LIENS

Any open state tax lien appearing on the credit report must be satisfied.

- Evidence of payment in full, if paid prior to settlement; or
- Payoff statement, if paid at settlement

6.26 DISPUTED DEROGATORY CREDIT ACCOUNTS

Disputed Derogatory Credit Account refers to disputed charge-off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

Lender must analyze the documentation provided for consistency with other credit information to determine if the derogatory credit account should be considered in the financial assessment.

The following items need not be considered by the lender:

- Disputed medical accounts, and
- Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use provided the lender includes a copy of the police report or other documentation from the creditor to support the status of the account in the mortgage file.

If the credit report indicates that the borrower is disputing derogatory credit accounts, the borrower must provide a LOE and documentation supporting the basis of the dispute.

6.27 BUSINESS DEBT IN BORROWERS NAME

Business debt in borrower's name refers to liabilities reported on the borrower's personal credit report, but payment for the debt is attributed to the borrower's business.

When business debt is reported on the borrower's personal credit report, the debt must be included in the expense analysis, unless the lender can document that the debt is being paid by the borrower's business, and the debt was considered in the cash-flow analysis of the borrower's business.

When a self-employed borrower states that debt appearing on their personal credit report is being paid by their business, lender must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash-flow analysis of the borrower's business.

6.28 CONTINGENT LIABILITIES

A contingent liability is a liability that may result in the obligation to repay only where a specific event occurs. For example, a contingent liability exists when an individual can be held responsible for the repayment of a debt if another party defaults on the payment.

Contingent liabilities may include cosigner liabilities and liabilities resulting from a mortgage assumption without release of liability.

Lender must include monthly payments on contingent liabilities in the expense analysis unless the lender verifies that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default, or the other party has made 12 months of timely payments.

6.28.1 MORTGAGE ASSUMPTIONS

Lender must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the borrower's name.

6.28.2 COSIGNED LIABILITIES

If the cosigned liability is not included in the monthly obligation, the lender must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months and does not have a history of delinquent payments on the loan.

6.28.3 COURT ORDERED DIVORCE DECREE

Lender must obtain a copy of the divorce decree ordering the spouse to make payments.

6.28.4 CALCULATION OF MONTHLY OBLIGATION

Lender must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability.

6.29 RESIDUAL INCOME

Financial assessment will focus on two (w) key PASS/FAIL Tests:

6.29.1 RESIDUAL INCOME TEST

Borrower's Residual Income is calculated by summing the total monthly income and subtracting the total monthly expenses as indicated below. Evaluating the borrower's cash flow will help determine

their capacity to meet on-going financial obligations. Limited Residual Income or excessive debt may be an indication of an inability to meet these obligations which may lead to default on the reverse mortgage and ultimately could result in foreclosure.

The calculation is based on the following:

Calculation	Document Source
Monthly Income (All Sources)	Required Income Documentation

LESS

Calculation	Document Source
Total Monthly Revolving and Installment Debt	Credit Report/Required Expense Documentation
Monthly Taxes	Tax Bill / Tax Cert
Monthly Homeowner Insurance Obligation	Insurance Declaration Page/ Invoice
PUD or HOA Dues (if applicable) and Special Assessments	Invoice / Appraisal
All OREO related expenses (if applicable)	Credit Report/ Insurance/ HOA

EQUALS: Total Monthly Residual Income

To determine the amount of Monthly Residual Income required, select the number of Borrowers from the table below.

# Borrowers	Residual Income Requirement
1	\$750
2 or more	\$1,000

Example (2 Borrowers):	
\$ 5,000.00	Verified Monthly Income
\$ 1,300.00	Total Monthly Housing Debt
\$ 500.00	Total All Other Obligations
\$ 3,200.00	Total Residual Income
\$ 1,000.00	Qualifying Residual Income per Table
\$ 2,200.00	PASS (Borrowers Residual Income > Qualifying Residual Income from Table)

6.29.2 WAIVER OF RESIDUAL INCOME TEST

The Residual Income Test can be waived if the following are met:

- Borrower(s) Qualifying Credit Score must be 780 or above
- Borrower(s) have maintained non forced-placed Homeowner’s Insurance on the subject property for the previous 12 months.
- Borrower(s) must meet all Credit History Requirements
- Transaction is a refinance (purchase transactions do not qualify for the waiver)

6.29.3 DEBT CONSOLIDATION TO PASS RESIDUAL INCOME TEST:

Credit debt (e.g., credit cards, installment loans, etc.) may be able to be paid off via the reverse mortgage proceeds in order to pass the Residual Income Test.

Any revolving debt or debt that has an available credit line which will be paid at closing requires a letter of verification from the creditor that the account has been closed prior to closing. The most recent 30-day statement or balance inquiry letter, from the creditor, must be provided reflecting the current balance owed in order to pay off the account to zero-balance.

Auto lease accounts cannot be paid off. Installment accounts cannot be paid down in order to exclude the payment from the Residual Income calculation.

6.29.4 COMPENSATION FACTORS-RESIDUAL INCOME SHORTFALL

In assessing whether the borrower has demonstrated the capacity to meet financial obligations the lender may consider one or more of the following compensating factors:

Borrower has documented overtime, bonus, part-time or seasonal income. The borrower has received this seasonal income for at least six (6) months, and it will likely continue.

Borrower has assets equivalent to the anticipated property charge payments for the life expectancy of the borrower that were not dissipated or considered in the residual income calculation.

6.30 MANDATORY OBLIGATIONS

The following items are permitted to be satisfied with the proceeds of the loan:

- Property tax payments required by the lender to be paid at closing
- Deferred taxes must be paid at closing
- State and Federal Tax liens that appear on credit must be paid at closing.
- HERO/PACE assessments must be paid at closing
- Solar lease when a borrower wishes to buyout the lease must be paid at closing.
- Flood insurance payments required by the lender to be paid at closing
- Hazard insurance payments required by the lender to be paid at closing
- Loan origination fee
- Reasonable and customary amounts, but not more than the amount actually paid by the lender for any of the following items:
 - Recording fees and recording taxes, or other charges incidental to the recording of the mortgage
 - Credit report
 - Survey, if required by the lender or borrower
 - Title examination
 - Lender's title insurance
 - Fees paid to an appraiser for the initial appraisal of the property in addition to documented AMC fees.
 - Doc Prep fees if charged by a third party and as allowed by state guidelines.
 - Other reasonable and customary fees required to process/close the reverse mortgage
- Amounts required to satisfy any existing liens on the property
- Customary fees and charges for warranties, inspections, surveys, engineer certifications, property inspections
- Funds to pay contractors who performed repairs as a condition of closing (must be listed as a payoff)
- Other unsecured credit debt if the borrower(s) does not meet the Residual Income requirement.

7. CONSERVATOR, GUARDIAN AND POWER OF ATTORNEY

7.1 CONSERVATOR AND GUARDIAN

A conservator or guardian is an individual who has been granted legal authority to act in certain capacities for another individual. Typically, the person for whom the conservator or guardian acts is a minor or an adult who is incapable of taking care of him/herself. The legal authority granted to the conservator or guardian varies from having complete control over the person and his/her assets to simply the management of the person's financial interest.

A transaction in which the borrower is represented by a conservator or guardian is acceptable provided the transaction meets all applicable provisions of this document and the following requirements:

A valid (unexpired) county-recorded/court-certified copy of Letters of Conservatorship or Letters of Guardianship, as applicable.

A court order stipulating approval of the conservator's/guardian's rights to encumber the subject property with a reverse mortgage loan.

If the court order specifies any loan terms such as loan amount, interest rate, and maximum cash out, etc., lender must adhere the direction of the court order.

If the title to the subject property is held in the name of a trust, the court order must authorize the trustee(s) to act on behalf of the trust.

Title to the subject property is vested in the name of the person who is conserved or protected under guardianship (except where title is vested in an eligible trust).

The title policy ensures full title protection to lender in accordance with this document. The title policy may not list any exceptions with respect to the conservatorship or guardianship.

The Security Instrument is executed by the conservator or guardian (e.g., John Doe conservator/guardian for Mary Smith) or as required by the title company to perfect the title.

The identity of the conservator/guardian is verified using the same procedures required for verifying the identity of the borrower.

The conservator/guardian receives reverse mortgage counseling with an approved counseling agency.

An AIF may not sign the mortgage Note, Security Instrument, or other mortgage document on behalf of a conservator/guardian, even though such authority may be granted by the conservatorship/guardianship documents.

Note: A review of the documentation by lender's Legal department and title insurer may be required at the Underwriter's discretion. The conservatorship must be approved by the title company.

7.2 POWER OF ATTORNEY (POA)

A POA is an authorization to act on someone's behalf in a legal or business matter. The person authorizing the other to act is the principal or grantor (of the power), and the one authorized to act is the agent or attorney-in-fact (AIF).

A POA becomes ineffective if its grantor dies or becomes incapacitated unless the grantor (or principal) specifies that the POA will continue to be effective even if the grantor becomes incapacitated (but such power ends when the grantor dies). This type of POA is a durable power of attorney.

7.2.1 GENERAL POA REQUIREMENTS

Transactions in which the borrower has granted a POA to an individual are acceptable provided the transaction meets all applicable provisions of this document and the following requirements:

- POA is a durable power of attorney, specifically designed to survive the grantor's incapacity and avoid the need for court proceeding.
- POA allows the subject property to be encumbered by the mortgage.
- POA is in compliance with state laws and allows the mortgage Note to be legally enforced in that jurisdiction.
- The notary who notarizes the POA may not be the same notary who notarizes the closing document.
- Loan documents are executed using the following signature format:
- [Borrower Name] by [Agent Name] (as it appears on the POA) as Attorney in Fact
- An affidavit of attorney-in-fact (AIF) is executed at closing.
- The title insurer confirms in writing that the transaction may be closed using the POA and the title policy must ensure full title protection to lender in accordance with this document. The title policy must not list any exceptions with respect to the POA.
- Original POA (not a copy) must be provided for recording.
 - POA for Legally Competent Applicant
 - A legally competent applicant must:
- Receive counseling and fully execute the counseling certificate.
- Execute the initial loan application.
- Once completed, the AIF may execute the remainder of the initial application disclosures and/or closing documents.

For all legally competent applicants, the AIF does not have to complete counseling or sign the initial loan application.

In addition, a handwritten letter from the borrower indicating the reason why a POA is being used must be completed and provided prior to closing.

7.2.2 POA FOR LEGALLY INCOMPETENT APPLICANT

A legally incompetent applicant may not sign the loan application or closing documents. Documents must be signed by a court-appointed conservator, guardian, or AIF.

For a POA to be valid, the individual must be mentally competent at the time the document is signed.

When the borrower is currently incompetent, a physician's letter is required. Lender must be able to clearly determine:

- The POA was executed when the borrower was competent,
- Date the capacity issues was diagnosed, and
- The borrower is no longer competent and able to manage their personal affairs.
- The AIF must receive counseling.

7.2.3 SIGNATURE WITH A MARK

Borrowers who cannot sign their full names may execute documents with a mark, provided the mark is witnessed and notarized per state requirements.

This includes persons who can sign their names but have difficulty signing large volumes of closing documents.

This can also include borrowers who are legally blind.

8. TITLE HELD IN TRUST

8.1 ELIGIBLE TYPES OF TRUSTS

A trust is an entity formed when individuals transfer property to other individuals or entities to hold and administer for the benefit of the beneficiaries.

Real estate may be held in various types of trust, although lender only accepts an inter vivos revocable trust or an Illinois land trust, subject to the requirements discussed in this section.

Irrevocable trusts may be considered on a case-by-case basis with certain conditions.

Qualified personal residence trusts, Realty or nominee trusts, including Massachusetts Realty Trusts, blind trusts, business trusts and other types of trusts that do not meet the eligibility criteria specified in this document are not eligible.

Note: For properties in the state of Texas, title may not be held in any type of trust.

8.2 INTER VIVOS REVOCABLE TRUST

An inter vivos trust (also referred to as a living trust, family trust or revocable trust) is established by an individual for estate planning purposes. Loans secured by properties held in inter vivos trusts are acceptable provided that any such transaction meets all the applicable provisions of the document, as well as the following criteria:

8.2.1 ELIGIBILITY CRITERIA FOR THE MORTGAGE

- The borrower(s) qualifies as individual(s) for the loan.
- All primary beneficiaries of the trust are eligible borrowers at the time of origination and until the mortgage is released (i.e., must occupy the subject property as their principal residence) and new beneficiaries may not be added to the trust. Contingent beneficiaries that receive no benefit from the trust nor have any control over the trust assets until the beneficiary is deceased need not be eligible borrowers.
- All primary beneficiaries receive reverse mortgage counseling with an approved counseling agency.
- Title to the subject property is vested in the trustee(s) of the trust. There may be no other owners.
- The title policy ensures full title protection to the lender and states that title to the subject property is vested in the trustee(s) of the inter vivos revocable trust.
- The title policy may not list any exceptions with respect to the trustee(s) holding title to the subject property or to the trust.
- An AIF may not sign the mortgage Note, security instrument or other mortgage documents on behalf of a trustee, even though such authority may be granted by the trust document and/or a Power of Attorney.

8.2.2 ELIGIBILITY CRITERIA FOR THE TRUST

- The trust must be in compliance with standard reverse mortgage guidelines and not contain any restrictions that would hinder the lender from legal action in case of default or foreclosure.
- Title vesting may remain in the name of the trust. However, the current beneficiary (borrower) must execute the mortgage and Note as an individual.
- If the borrower is deemed incapacitated, follow the guidelines outlined in section 4.11.2, Power of Attorney (POA).
- The current trustee(s) must execute the mortgage and the note.

- If the current trustee is deemed incapacitated, his/her designated legal representative (POA) may not execute the mortgage. Instead, the successor or contingent trustee must execute the mortgage.

8.2.3 DOCUMENTATION REQUIREMENTS

- A full copy of the trust document including all amendments, certified by the trustee, is required for review to determine if the trust requirements have been met.
- In some states, a recorded copy of the Certificate of Trust may be acceptable in lieu of the complete trust agreement.
- Acceptance of the Certificate of Trust will also depend on the information contained within the certificate and it must adhere to the same reverse mortgage lending standards as a full trust.

8.3 ILLINOIS LAND TRUST

A land trust is an agreement in which one party (e.g., the trustee) agrees to hold ownership of a piece of real property for the benefit of another party (e.g., the beneficiary). Land trusts are used by individuals primarily to keep their real estate ownership private (i.e., public records will reflect the trustee's name as the owner) and to avoid probate (the property is immediately passed to the owner's heirs upon death).

Loans secured by properties held in an Illinois land trust are acceptable when the following conditions are met:

- A copy of the land trust document.
- All beneficiaries of the trust are eligible borrowers at the time of origination and until the mortgage is released (i.e., must occupy the property as a principal residence), and new beneficiaries may not be added to the trust.
- The land trust is an institutional entity such as a bank; individuals are not acceptable as trustees.
- The borrower, as an individual, signs all documents, including the mortgage Note and the Deed of Trust/mortgage.
- The land trustee signs the mortgage(s) and provides a letter specifying who has authority to sign closing documents.

8.4 TRUST REVIEW, ATTORNEY OPINION LETTER, AND TRUST AGREEMENT

8.4.1 TRUST REVIEW

All pages of the trust must be reviewed by the Lender to verify the trust meets all reverse mortgage guidelines.

The trust and related documents must provide the following information:

- Full name of Trust
- Name of settlors/grantors/trustors
- Name of Trustees
- Name of Beneficiaries
- Clear evidence the trust is currently revocable and amendable
- Clear evidence the Trustee can borrow money
- Clear evidence that the residence can be used as collateral for the loan
- Clear evidence that upon the settlor/beneficiary's death, the trustee can sell the residence and pay of the loan
- If a "joint trust", clear evidence of what happens if a settlor/beneficiary dies
- Clear evidence of what happens if a settlor/beneficiary becomes mentally incompetent

Note: Other criteria/scenarios may be researched, depending on the circumstance and specific trust documentation provided.

The following documentation/information is required in addition to the trust for a trust review:

- Copy of the trust and any amendments.
- Name of all borrowers.
- If a borrower is now incompetent, need to know.
- Copy of POA (if applicable).
- Preliminary title report.
- Loan application.
- Death certificate and/or date of death (if a settlor is deceased).
- Court orders (if applicable).
- Physician letters (if applicable).

8.4.2 ATTORNEY OPINION LETTER

In addition to a Lender Review, a trust may also require an Attorney Opinion Letter. Attorney Opinion Letters are required for all trusts when they have split. They may also be required when the Lender is not able to clearly determine all guidelines for a reverse mortgage have been met. The Attorney Opinion Letter must include the following:

- Beneficiary(ies).
- Trustee(s).
- Individual(s) that must execute the note and deed of trust (mortgage).
- If there is any language, within the body of the Trust agreement, that would prevent or delay the Lender from foreclosure proceedings in case of default or other action.

When a trust is deemed unacceptable, the borrower must take any actions necessary to ensure the trust is eligible in order to qualify for a CHOICE loan. Lender does not advise the borrower

regarding the trust, assist with amending trust documents, or otherwise assist in taking any actions related to the trust.

8.5 LIFE ESTATE

A life estate is a form of interest in a property that allows the person with the life estate to retain full interest in the property until his/her death but vests legal title in another person.

The borrower may hold a life estate on the subject property with the following conditions:

- The subject property is not located in the state of Texas.
- The holders of the life estate (i.e., borrowers) and anyone with the future or remainder interest (i.e., a remainderman) sign the following closing documents:
 - Security instrument (1st and 2nd Deeds of Trust or Mortgage).
 - Any applicable riders (e.g., Condo Rider).
 - Notice of Right to Cancel.
 - Truth-in-Lending Act Disclosure at closing.
- The intervening assignments reflect the same borrowers (all holders/borrowers and anyone with future interest/remainderman).
- The preliminary title report and the title insurance evidenced by the final title policy list all such borrowers (all holders/borrowers and anyone with future interest/remainderman) as holding title to the subject property.
- A Lady Bird deed, also known as an enhanced life estate, is acceptable.
 - The Lady Bird deed is a way to transfer property to someone else outside of probate while retaining a life estate in the property.
 - Unlike a regular life estate, a Lady Bird deed gives an individual the power to retain control of the property during their lifetime, including the right to use the property for profit, to sell the property, or to mortgage.

8.6 REMOVAL OF PARTIES FROM TITLE

It is the Lender's policy to never suggest or recommend the removal of a party from title to the subject property.

- However, non-borrowing parties may choose to be removed from title to allow the borrower to qualify.
- In such cases, the title company must approve the final title vesting. Lender no longer requires persons removed from title to receive counseling.
- All parties with a vested interest in the property at application, but who will not have a vested interest at closing or be a party to the loan transaction will not be required to attend counseling.
- In the event title vesting includes a deceased person, a certified copy of the death certificate is required.

- This includes any person named in a trust.
- The title insurer must confirm in writing that the deceased party may be removed from title during the closing process without a probate of the estate.

9. PROPERTY

9.1 ELIGIBLE PROPERTY

The following property types are eligible for financing under lender's CHOICE Program:

- Single family residence
- Two- to four-family residences whereby the borrower(s) occupy one of the units (primary residence only)
- Townhomes (attached and detached)
- Planned Unit Development (PUD)
- Condominium (FNMA approved, FNMA warrantable projects under a Limited Review process or FHA approved)
 - **Note:** For a list of warrantable condominium project guidelines, refer to: [FNMA List of Warrantable Condos](#)
- Site condominium

9.2 INELIGIBLE PROPERTY

The property is considered ineligible when the following applies:

- Unimproved land
- Log Homes, Geodesic dome homes, Houseboats or other unique property types
- Mixed Use
- Properties with more than 20 acres.
- Manufactured housing
- Units in Co-Operative or condo-hotel projects
- Working farms and properties used for agricultural purposes or commercial enterprise
- Timeshares or segmented ownership properties
- Properties used as short-term rentals (under 30 days) or any property that provides hotel-type services
- Bed and breakfast
- Properties situated in any area defined by the U.S. Geological Survey Observation as Lava Flow Zones 1 or 2 (e.g., summit areas, active parts of the rift zone, areas adjacent to any downslope from Kilauea or Mauna Loa)
- Indian leased land properties
- Hawaiian Homeland properties

9.3 EXCESS ACREAGE, AND MULTIPLE PARCELS

When the subject property consists of more than one (1) parcel, the parcels must be adjoining, have consistent use, conform to the area, and the encumbrances of the multiple parcels may not compromise the subject property's highest and best use or lien position.

The parcels may have separate tax assessor's numbers.

- When a home straddles the property line between two (2) lots, both of which are owned by the borrower, both lots are encumbered.
- Encumbrance must be addressed when there is a vacant, buildable lot with a separate parcel number adjoining the lot that contains the house and improvements.

9.4 CONDOMINIUM PROJECT STANDARDS

9.4.1 WARRANTABLE CONDOMINIUM PROJECTS (FNMA LIMITED REVIEW)

A condominium unit is a single-family dwelling located in a condominium project.

A condominium project is real estate that includes the separate ownership in fee, or an acceptable leasehold estate, or a specified residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners.

A condominium project is created according to local and state statutes.

- The structure is generally two (2) or more units with the interior airspace individually owned.
- The balance of the property (land and building) is owned in common by the individual unit owners.

Condominiums create additional risk because the homeowners association (HOA) has legal rights that could adversely impact the lender's rights. Depending on the financial management of the HOA, the value of the project (unit) can be adversely affected.

Often, a condominium development has commercial space for a restaurant, deli, hair salon, grocery store, etc. If this is the case, there should be no more than 25% non-residential space in the building.

The requirements to be warrantable include such features as the following:

- The project (including all common areas) is fully completed, and the common areas are insured.
- The HOA is controlled by unit owners (as opposed to the developer).
- Fifty percent (50%) or more units are owner-occupied.
- see Ineligible Condo considerations

9.4.2 INELIGIBLE CONDOMINIUM CONSIDERATIONS:

- Projects that are managed as a hotel or motel, even if the units are individually owned;
- Projects that have timeshare, fractional or segmented ownership;
- Subject cannot be new construction where the Seller is offering sale or financing structures in excess of FNMA's eligibility policies for individual mortgage loans. This includes but is not limited to: builder/developer contributions, sales concessions, HOA assessments, or principal & interest payment abatements, and/or contributions not disclosed on the settlement statement;
- Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Fees paid for the use of recreational amenities owned exclusively by the HOA or Master Association are acceptable;
- Projects cannot have multi-dwelling units or non-real estate/non-real property;
- Projects that are a continuing care facility;
- Projects in which HOA is named as a party to pending litigation or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project;
- Projects with a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:
 - Projects with 2 to 4 units – 1 unit
 - Projects with 5 to 20 units – 2 units
 - Projects with 21 or more units – 10%
- Projects containing manufactured housing;
- Projects that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction;
- Any project that permits a priority lien for unpaid common expenses in excess of FNMA's priority lien limitations;
- Project with Covenants, Conditions, & Restrictions that split the ownership of the property or curtail an individual unit owner's ability to utilize the property;
- Projects that have documents on file with the Securities and Exchange Commission (SEC) or where unit ownership is characterized or promoted as an investment opportunity.

NOTE: Investor reserves the right to limit its own lending concentration limit in any one project and in no case will lender finance more than 50% of the units in any condo association through CHOICE program.

9.5 DELINQUENT HOA DUES/SUPERIOR LIEN

When the subject property is a condominium or PUD unit located in a jurisdiction in which delinquent HOA dues and assessments may become a lien that is superior to the first mortgage, confirmation that the dues and assessments are current at the time of loan funding is required.

In cases where there are delinquent dues or assessments, the past due amount must be brought current prior to or at closing and the borrower must provide a written explanation for the delinquency and confirmation that the dues will be paid in a timely manner.

9.6 LEASEHOLD PROPERTIES

Leasehold properties are eligible for financing in areas where they are common and have received market acceptance and the following conditions are met:

9.6.1 ENCUMBRANCE

The lease must permit the subject property to be mortgaged.

9.6.2 TERM

Not less than 99 years, and renewable for 99 years, or under a lease having a remaining term of not less than 50 years beyond the 100th birthday of the youngest borrower.

9.6.3 DEFAULT

Lender must have the right to correct lessee's default within 120 days from receipt of notice of intent to terminate the lease because of such default, or such further time as may be necessary to complete the foreclosure.

9.6.4 CONDEMNATION

The lease must provide protection on the lender's interest in the event of a property condemnation.

9.6.5 INDIAN LEASE LAND

Lender will not lend on Indian leased land.

9.7 SOLAR PANELS

Properties with solar panels are eligible if the following requirements are met;

- The property owner is the owner of the solar panels; OR
- If the solar panels are leased from or owned by a third party under a power purchase agreement, all of the following must be met:
 - The property must have access to an alternate source of electric power that meets community and local standards.
 - Value of the solar panels cannot be included in the appraised value.

- Lease payment must be included as a liability in the Residual Income Test, unless the lease is structured to provide both of the following:
 - Delivery of a specific amount of energy at a fixed payment during a given period; and
 - Production guarantee that compensates the client in the event the solar panels fail to meet the output required for the lease period.
- The lease or power purchase agreement and/or addendums must include provisions indicating that:
 - Any damage that occurs as a result of installation, malfunction or manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the solar panels, and the owner must repair the damage and return the property to its prior condition.

Note: if the borrower is purchasing a home with leased solar panels and they are NOT taking over the lease of the solar panels, the guidance above does not apply.

- In the event of foreclosure, the mortgage lender can do ONE of the following:
 - Terminate the lease and require the owner of the solar panels to remove them from the subject property.
 - Transfer the lease agreement into their name from the previous property owner.
 - Enter into a new lease, with terms equal to or better than the current lease.

10. APPRAISAL

Appraisals must be performed by an approved Appraisal Management Company (AMC). Lender will maintain a list of approved AMCs and notify Investor of any changes to that list. Reports should be the typical standard appraisal requirements and provide all information required to support the appraiser's conclusion of value. Photographs of the interior of the subject property including the living room or family room, kitchen and bathroom must be included with the appraisal report.

Appraisals are subject to review and approval by the Underwriting department. The term of the appraisal begins on the day the home is inspected by the licensed appraiser and this date appears on the Uniform Residential Appraisal Report (Fannie Mae Form 1004). A desk review or field review may be required when deficiencies are found in the initial report.

Applicants must be notified of their right to receive copies of all appraisals developed and the associated requirements for delivery, timing and fees.

10.1 REQUIRED APPRAISAL(S)

- One (1) appraisal with UPB up to \$1,000,000 plus independent CDA or equivalent Desk Review.
- Two (2) appraisals with UPB greater than \$1,000,000. Appraisals must be completed by two (2) independent Appraisers though they can be ordered through the same AMC.

10.2 CDA REQUIREMENTS

- The Lender must use a Collateral Desktop Analysis (CDA) or equivalent market standard review product from an independent appraiser. Preferred approved vendor is Clear Capital.
- Desktop Review approval is as follows:
 - If the CDA or equivalent is within a 10% tolerance of the Appraised Value, the Appraised Value is accepted.
 - If the CDA or equivalent falls outside a 10% tolerance, a Field Review or Interior BPO value must be ordered.
 - If the Field Review or Interior BPO is within a 10% tolerance of the Appraised value, the Appraised Value is accepted.
 - If the CDA or equivalent, Interior BPO or Field Review is below a 10% tolerance the underwriter can decide to proceed with the lower value. An AVM cannot be used solely to provide a qualifying property value.

10.3 APPRAISAL REQUIREMENTS

- The appraisal report must include three (3) comparable sales that sold within 12 months of the date of the appraisal.
- Appraisals must be dated within 120 days of the date of closing.
- Recertification of value, a.k.a. Appraisal Update is not permitted.
- A one-time thirty (30)-day extension is permitted
- For homes constructed within 12 months of loan application, a certificate of occupancy or its equivalent is required. The certificate of occupancy must be dated prior to loan closing
- For refinance transactions, if the subject property has been listed for sale, the property must have been removed from the market for at least six (6) months prior to the date of the initial application. A copy of the MLS listing reflecting cancellation/withdrawn will be required. A letter of explanation is required from the borrower(s).
- Properties purchased more than 6 months but less than 12 months from the initial application date will be based on the lesser of the purchase price or appraised value. If the borrowers have made documented improvements since acquisition, then the current appraised value may be used. The appraiser must note all improvements and the subject property cannot be an over improvement for the area.

- The original purchase transaction must have been arm's length. Properties purchased within 6 months from the initial application date will always default to the lesser of the purchase price or appraised value.
- Lender reserves the right to lower lending limit based on information provided through the appraisal or other loan documents.
- If the subject property is currently in a declining market, the LTV will be reduced by 5%.

10.4 APPRAISAL REPORT FORMS

Appraisals and related reports must be prepared on the current version of the form applicable to the property being appraised, as follows:

- **Uniform Residential Appraisal Report (Fannie Mae Form 1004)** is required for non-income producing single-family dwellings or single-family dwellings with an accessory unit, except for manufactured homes and condominium units.
- Market Conditions Addendum to the Appraisal Report (Fannie Mae Form 1004MC) is required for all one-to-four unit properties.
- **Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073)** is required for all individual condominiums units and site condos.
- Small Residential Income Property Appraisal Report (Fannie Mae Form 1025) is required for incoming-producing two-to-four unit properties.

10.5 OWNER OCCUPIED DESIGNATION

The property must reflect the owner; if the property is tenant occupied, the loan will be rejected. Owner & tenant occupancy permitted on 2-4 unit properties.

Present Land Use should not reflect a current change underway to non-residential use. Other specific requirements of the appraisal include the following:

10.6 SUBJECT/NEIGHBORHOOD

- The home may not be listed for sale, under contract, or active listing.

10.7 PLANNED UNIT DEVELOPMENT (PUD)

- If the property is in a PUD, the borrower must be current on his/her dues to the HOA.
- Dues may be brought current at closing. This can be verified verbally by the Processor and documented with a Processor Cert listing the name of the person the Processor spoke with and a contact phone number.

10.8 CONDOMINIUM

- If the property is a condo, the borrower must be current on his/her dues to the HOA.
- Dues may be brought current at closing. This can be verified verbally by the Processor and documented with a Processor Cert listing the name of the person the Processor spoke with and a contact phone number.

10.9 ZONING

Zoning classifications must match residential zoning and allow for the number of units.

- When there is zoning, zoning compliance must be legal.
- If zoning is legal non-conforming, a rebuild letter will only be required from the zoning board stating that the home can be rebuilt if completely destroyed if it is not noted within the appraisal report.
- If zoning is illegal, the file is rejected.
 - If there is no zoning, the file is accepted as long as the property as improved is the highest and best use.

10.10 HIGHEST AND BEST USE

- Highest and Best Use must be the present use.
- Example: If the borrowers live in a house in the midst of a group of skyscrapers, that is not the highest and best use of the property, and the loan will likely be rejected.

10.11 SITE HAZARDS AND NUISANCES

The appraiser must note any site hazards or nuisances affecting the subject property if they potentially endanger the health and safety of the occupants and/or the structural integrity or marketability of the property. Hazards may include, but are not limited to the following:

- Soil contamination.
- Operating and abandoned oil and gas wells.
- Abandoned wells.
- Slush pits.
- Heavy traffic.
- Airport noise and hazards.
- Runway clear zones/clear zones.
- Proximity to high pressure gas, liquid petroleum pipelines or other volatile and explosive products.
- High-voltage transmission lines.
- Radio/TV transmission towers.

- Excessive smoke, fumes, odors and stationary storage tanks containing flammable or explosive material.
- Other hazards that must be assessed include potential damage from soil or other differential ground movements, subsidence, ground water, inadequate surface drainage, flood, erosion, excessive noise, defective lead-based paint and other hazards on or off the site.

10.12 WELL AND SEPTIC

Appraiser must confirm that a well and/or septic system is typical for the market area and does not affect marketability. No deficiencies are noted and meets local requirements.

Note: Connection to public water/sewer is not automatically required. The connection will depend upon whether the well and septic are typical for the market and meet local requirements.

10.12.1 SHARED WELLS

A Shared Well refers to a well that services two to four homes where there is a binding maintenance agreement between the property owners.

Smartfi must confirm that a shared well:

- Serves no more than four living units or properties
- Serves existing properties that cannot be feasibly connected to an acceptable public or community water supply system.
- Is capable of providing a continuous supply of water to involved dwelling units so that each existing property simultaneously will be assured of at least three gallons per minute (five gallons per minute for proposed construction) over a continuous four-hour period. The well itself may have a lesser yield if pressurized storage is provided in an amount that will make the 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling during a four-hour period.
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's Nation Interim Primary Drinking water regulations.
- Has a valve on each dwelling service line as it leaves the well as that water may be shut off to each served dwelling without interrupting service to the other properties.

10.13 ACCESSORY DWELLING UNIT (ADU)

An ADU is a habitable living unit added to, created within, or detached from a primary single-family dwelling and contained on one (1) lot.

ADUs are commonly understood to be a separate living unit, including kitchen, sleeping, and bathroom facilities and may be attached or detached from the primary residential unit on a single-family lot.

ADUs are usually subordinate in size, location, and appearance to the primary unit and may or may not have a separate means of ingress or egress.

The Uniform Residential Appraisal Report (Fannie Mae Form 1004) must be used on an appraisal for a dwelling with an ADU.

The appraiser determines whether or not an ADU is a second dwelling unit and indicates in the site analysis section of the appraisal report where zoning, highest and best use and legal use are addressed.

If the foundation shows evidence of infestation, dampness or settlement, the appraiser should condition for an inspection and/or repairs.

All homes must have a permanent heat source that is adequate to heat the entire home.

An emergency release mechanism (a.k.a. quick release) is required on all barred bedroom windows.

The appraiser must list any repair that impacts the health and safety of the occupant or structural integrity of the subject property.

10.14 SALES COMPARISON APPROACH

The appraiser must provide at least three (3) comparable sales less than one (1) year old.

10.15 DECLINING HOUSING MARKET

There is an increased potential for the overstatement of property values in appraisal reports for properties located in declining market areas. Additional due diligence is required when reviewing the appraisal and assessing the collateral that secures the mortgage loan.

Strong indicators of a declining market include, but are not limited to, the following: A high foreclosure rate.

- A large concentration of homes for sale in the area.
- Marketing time of more than six (6) months.

When the subject property is located in a market identified as declining by the appraiser, additional information is required from the appraiser, as follows:

- Comparables that include at least one (1) pending sale and one (1) active listing. If the pending sale is not available, an additional listing may be substituted.
- Comparable sales should be no older than 90 days. If it is necessary to use older sales, adequate adjustments for time must be made.
- The number of days on the market must be included for all comparables, closed sales, pending sales, and listings. For closed sales, the sales price to list price ratio should be shown.
- Comments from the appraiser regarding the decline in values in the area and how the decline was considered in estimating the value of the subject property. The appraiser should also comment if there is a high concentration of foreclosure sales in the area.
- Properties located in a declining market are subject to a 5% LTV reduction.
- The age of the appraisal should be considered. Older appraisals may require updates from the appraiser including updated comparables.
- The Market Conditions Addendum to the Appraisal Report (Fannie Mae Form 1004MC) must accompany the updated report to address trends in the market.

10.16 APPRAISAL DELIVERY REQUIREMENTS

As per the Consumer Financial Protection Bureau (CFPB's) Equal Credit Opportunity Act (ECOA) Valuation's Rule, Smartfi requires the following:

- Borrowers must be notified within three days of application of their right to receive copies of all appraisals and other valuations. This disclosure is included in the application package.
- Borrowers will be provided with a copy of each appraisal and other valuations promptly upon completion or three days prior to loan closing, whichever is earlier.
- Borrowers may waive the three day wait to close by signing a waiver and opt to receive the appraisal at closing. This waiver must be signed at least three days prior to closing.
- **WASHINGTON:** The state of Washington requires the lender to provide a copy of the appraisal to the borrower within five days of a borrower's written request provided the borrower has paid for the appraisal. The Federal lender requirements for appraisal delivery meet this requirement.

10.17 FEMA DISASTER AND EMERGENCY DECLARATIONS

Refer to FEMA's website at [Disaster Information | FEMA.gov](https://www.fema.gov/disaster) to search and review disaster and emergency declarations. Lender issues FEMA Alerts upon notification of a FEMA disaster declaration, which include all applicable information. However, refer to the FEMA website for the most current information.

10.16.1 PRESIDENTIALLY DECLARED MAJOR DISASTER AREA

For properties located in a Presidentially Declared Major Disaster Area (Disaster Area), the following closing and inspection requirements apply on loans submitted without an appraisal on or before the effective date (i.e., date the emergency declaration declared):

- An interior and exterior inspection prior-to-funding or purchase is required on any loans with subject properties that are determined to be at risk.
- The inspection must verify that the property is sound, habitable and in the same condition as when it was appraised.
- Only licensed and state-certified Appraisers may be used to complete the inspection.
- If there is any damage to the property, the repairs must be completed prior to lender funding/purchasing the loan.
- All inspections must be ordered through the lender's approved AMC.
- Re-inspection requirements apply only to FEMA designated geographic areas eligible for individual assistance (i.e., homeowners and housing assistance). If the disaster is only declared for public assistance (i.e., roads, public places), a disaster re-inspection is not required.

10.16.2 EMERGENCY DECLARATION (NON-DECLARED DISASTER)

When a geographic area is designated for an Emergency Declaration by FEMA, but has not yet been declared a disaster, Smartfi will require the loans in these locations to follow the Declared Disaster Area Requirements outlined in the Guide section 10.16.

As FEMA declares disaster areas, Smartfi may remove this required from the loans that are not affected by the disaster.

10.18 HAZARD INSURANCE

Each borrower has the right to select his/her own insurance carrier to provide hazard insurance for the subject property, provided the insurance policy and coverage meet 's requirements.

10.17.1 COVERAGE REQUIREMENTS

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. If any perils are excluded from coverage, the policy is not acceptable unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril. The coverage must provide for claims to be settled on a replacement cost basis.

The amount of coverage required is 100% of the insurable value of the subject property improvements. This may be the appraised value minus the site value, or guaranteed replacement cost coverage.

The amount of coverage must be either:

- The appraiser's evaluation of "total estimate of cost new"; OR
- The total appraised value minus the site value; OR
- Guaranteed Replacement Cost

States of FL and TX

When there is a discrepancy between the total amount of coverage using the appraisal report to the homeowner's insurance company replacement cost, then we must obtain the replacement cost estimator from the homeowner's insurance company/carrier. The minimum dwelling coverage must equal the amount of the replacement cost estimator and be within **10% of the total amount of coverage using the appraisal report.**

For properties located in designated zones (landslides, cliffs, etc.), the lender will require sufficient homeowner's insurance to cover any unforeseen accidents.

10.17.2 EVIDENCE OF HAZARD INSURANCE

The effective date of the hazard policy must be no later than the closing date. For refinances, the expiration date must be no earlier than 30 days after the loan closing date. When the expiration date of the policy is less than 30 days from closing:

- A renewal policy is required
- If on a monthly installment, a payment to take the policy 90 days past closing is due at closing.
- If paid quarterly, a full quarterly installment of the premium is due at closing.
- If paid semi-annually, a full semi-annual installment of the premium is due at closing.
- If paid annually, then a full year's renewal premium is due at closing.

Note: When the actual renewal rate is not available, the Lender will use 120% of the previous year's premium.

If HOI Policy is paid on a monthly installment plan and the borrower(s) wish to continue with the monthly installment plan, then a satisfactory 12 month payment history is required. Borrowers may have no late payments or policy cancellation notices in the prior 12 months.

If a new policy, then the full year's premium must be paid at closing. The policy declaration page must include the following:

- Borrower's name.
- Subject property address.
- Effective date.
- Expiration date.
- Coverage amount.
- Loan number.

- Lender must be named as an insured including ISAOA.

Evidence that the policy is paid current. The following documents may be provided by Processing to verify policy payment:

- Insurance questionnaire filled out by the insurance agent.
- Email from insurance agency detailing payment.
- Cover letter or fax cover sheet from the insurance agency detailing payment.
- Proof of monthly payment from borrower (e.g., cancelled checks, bank statement showing policy payment).
- Payment information printed on the declarations page.
- Additional payment verification to be reviewed with Underwriter discretion.

10.19 FLOOD HAZARD DETERMINATION AND INSURANCE

Lender requires the borrower to maintain a flood insurance policy when the subject property has a building, dwelling, structure or improvement situated in a Special Flood Hazard Area (SFHA) that has a federally mandated flood insurance purchase requirement.

A Standard Flood Hazard Determination Form (FEMA Form 81-93 or 086-0-32) is required to determine whether any of the subject property improvements are located in an SFHA. SFHAs are shaded on a Flood Hazard Boundary Map and designated on a Flood Insurance Rate Map. These areas are designated by the following symbols:

A	AR	VE
AE	A1-30	VO
AH	A99	V1-30
AO	V	

The property may be considered ineligible when any of the following apply:

- The property is not mapped.
- The flood zone is undetermined.
- Flood insurance is not available because the community does not participate in the National Flood Insurance Program (NFIP).

Smartfi may waive flood insurance requirements for stick-built homes with the following documents:

- An elevation certificate showing that the finished grade elevation beneath the home or, if there is a basement, the lowest finished exterior grade adjacent to the perimeter, is at or above the 100- year return frequency flood elevation.

- Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR). These are documents from Federal Emergency Management Agency (FEMA) that state that its maps have been amended so that the subject property improvements are no longer in an SFHA.

When the residential building and/or related improvements to the property are not located within the SFHA but there is reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding, then flood insurance is required.

10.18.1 FLOOD HAZARD DETERMINATION AND NOTICE TO BORROWER

A complete Standard Flood Hazard Determination Form (FEMA Form 81-93 or 086- 0-32) is required for all loans. The certification may be provided by a reputable vendor, as follows:

- Provide life-of-loan service.
- Include HMDA/Census Tracking information: city, state, Census Tract, and MSA code. When the subject property is located within an SFHA, a Notice to Borrower in Special Flood Hazard Zone is included with the flood hazard determination form.
- Notice must be provided to the borrower at least 3 days prior to loan closing.
- If new flood insurance coverage is required as a condition of the loan, the borrower must sign the acknowledgement on the notice, and it must be included in the loan file.

10.18.2 FLOOD INSURANCE COVERAGE REQUIREMENTS

Flood insurance is required if any part of the principal structure is located within an SFHA. Detached buildings (e.g., stand-alone garages, sheds or NFI greenhouses) are not considered part of the principal structure, although flood insurance will be required if buildings are included in the appraised value.

When the principal structure on a property is not located within a SFHA, flood insurance generally will not be required even if another detached structure on the property is located within the SFHA. However, if the detached structure is attached to the land and serves as part of the security for the mortgage, flood insurance is required for the detached structure (and may be purchased through a separate policy on a general property insurance form).

Lender waives flood insurance requirements if the borrower provides a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR) from FEMA stating that its maps have been amended so the subject property improvements are no longer in an SFHA.

Flood insurance generally should be in the form of the standard policy issued under the NFIP. Policies that meet NFIP requirements (i.e., those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's Write Your Own program) are acceptable.

Properties located within the Coastal Barrier Resources System (CBRS) or within an Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act, Are not eligible for financing through Smartfi.

Maximum insurance available from the NFIP is \$250,000 per dwelling.

The maximum allowed deductible may be no greater than the maximum deductible available from the NFIP (i.e., \$5,000).

Flood insurance coverage must be in the amount of the total cost new or the maximum \$250,000 flood insurance limit.

10.18.3 EVIDENCE OF FLOOD INSURANCE

The effective date of the flood insurance must be no later than the closing date. The expiration date must be no earlier than 30 days after the loan closing date for a refinance. If the expiration date is less than 30 days from closing, a full year's renewal premium must be paid prior to or at closing.

For purchases, the policy must be paid for a full year and the premium may be paid at closing. A copy of the policy declaration page must include the following:

- Borrower's name
- Subject property address
- Effective date
- Expiration date
- Coverage amount
- Loan number
- Smartfi must be named as an insured including ISAOA.

Evidence that the policy is paid through the required minimum policy term is required unless the premium is paid at loan closing. The following documents may be provided by Processing to verify policy payment:

- Insurance questionnaire filled out by the insurance agent.
- Email from insurance agency detailing payment.
- Cover letter or fax cover sheet from the insurance agency detailing payment.
- Proof of monthly payment from borrower (e.g., cancelled checks, bank statement showing policy payment).
- Payment information printed on the declarations page.
- Additional payment verification to be reviewed with Underwriter discretion.
- If the borrower(s) are on a monthly payment plan and wish to continue, a satisfactory 12 month payment history is required.

10.20 HAZARD INSURANCE FOR CONDOMINIUMS

When a reverse mortgage is secured by a unit in a PUD or condo project and the legal documents for the project allow for blanket insurance policies to cover either the common elements or both the individual units and the common elements, Smartfi requires verification that the HOA is

maintaining a master or blanket policy that provides the premiums to be paid as a common expense, as follows:

- The insurance policy must at least 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 projects, including those covered by the standard at risk endorsement.
- If the policy does not include an "At Risk" endorsement, Smartfi accepts a policy that includes the broad form covered causes of loss.

10.19.1 CONDOMINIUM PROJECTS

- The HOA must maintain a master or blanket type of insurance policy with premiums being paid as a common expense.
- The policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA.
- If the master policy encumbers walls-in coverage (HO-6), no additional insurance is required. If not, the borrower must obtain a supplemental HO-6 policy which equates to 20% of the appraised value.
- General Liability coverage of \$1,000,000 is required.

10.19.2 AMOUNT OF COVERAGE

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement under which the insurer agrees to replace the insurable property regardless of the cost and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement, which waives the requirements for coinsurance, or
- A Replacement Cost Endorsement under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more, and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement which waives the requirement for coinsurance.

10.19.3 NAMED INSURED

- For condo projects, the policy must show the HOA as the named insured.
- If the condo's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured.
- The loss payable clause should show the HOA or the insurance trustee as the trustee for each unit owner and the holder of each unit's mortgage loan.

10.19.4 EVIDENCE OF INSURANCE

A copy of the master or blanket policy and certificate or evidence of insurance must show the following information:

- Reference to the master or blanket policy.
- Reference to our subject property address and unit.
- Name of the insured: The name of the project's HOA.
- A provision for at least ten-day notice prior to cancellation due to non-payment.
- Any endorsement that is a part of the policy.
- Borrower's name.
- Insuring agent's signature (may be stamped).
- Smartfi must be named as an insured including ISAOA.

10.21 FLOOD INSURANCE FOR CONDOMINIUMS AND PUDS

10.20.1 CONDOMINIUM PROJECTS

The policy must cover common element buildings and any other common property.

- When the project consists of high-rise or other vertical buildings, the HOA must obtain a Residential Condominium Building Association Policy for each building that is located in an SFHA.
- The policy must cover all of the common elements and property, as well as each of the individual units in the building.
- The amount of coverage should be at least equal to the lesser of 100% of the insurable value of each insured building including all common elements and property, or the maximum coverage available under the applicable NFIP.
- A separate policy is required for the individual dwelling unit when an HOA refuses to obtain a Residential Condominium Building Association Policy or when the Residential Condominium Building Association Policy does not comply with Smartfi's insurance requirements.
- The coverage required for the individual unit should be based on the coverage requirements for the other one-unit properties as specified earlier.
- For policies covering condo projects, the maximum deductible amount may not be greater than the maximum deductible available from the NFIP (currently \$25,000).

10.20.2 EVIDENCE OF INSURANCE

A copy of the master or blanket policy and a certificate or evidence of insurance must provide the following information:

- Reference to the master or blanket policy.
- Reference to our subject property address and unit.
- Name of the insured: The name of the project's homeowners association.

- A provision for at least ten (10) days notices prior to cancellation due to non- payment.
- Any endorsement that is part of the policy.
- Borrower's name.
- Smartfi must be named as an insured including ISAOA.
- HO-6 (Walls In) Condominium Insurance

If the condominium master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit, the borrower must obtain a walls-in coverage (HO-6) policy equal to a minimum of 20% of the appraised value of the condo unit.

11. TITLE INSURANCE

Title insurance meeting the requirements outlined in this section issued by a title insurer that is acceptable to Smartfi is required for all loans.

11.1 PRE-CLOSING TITLE REQUIREMENTS

- Each loan file submitted for underwriting must include a preliminary document showing the status of title, either current or proposed. The preliminary document may take the form of:
 - Preliminary title report, or
 - Title commitment.
- A generic title commitment is not acceptable. The title commitment must specifically name the title insurer.
- For refinance transactions, title must be vested in the borrower's name at the time of initial application (see exceptions in Ownership Interests).
- The proposed coverage amount must be the maximum claim amount.
- A 24-month chain of title report must be included.
- The effective date of the preliminary report may not be earlier than 90 days in Texas, and 120 days in all other states prior to closing.

11.2 TITLE EVIDENCE AND TERMS OF COVERAGE

The title policy must be written on the 2006 ALTA standard form or the ALTA short form. To the extent permitted by applicable law, title insurance must be issued in an amount at least equal to 100% of the minimum of the Appraised or qualifying property value.

The title policy must provide the following coverage:

- **Environmental Protection Liens:** ALTA 8.1 endorsement or equivalent.
- **Creditor's Right:** ALTA 21-06 endorsement or equivalent.
- **Negative Amortization:** ALTA 6.2 endorsement or equivalent.

- Restrictions, Endorsements, Minerals: Alta 9
- **Leasehold Estate:** For loans secured by properties subject to a leasehold estate, leasehold lender's endorsement or equivalent is required. The title insurance policy must include, as part of the insured estate, the value of the lessee's leasehold improvements.

11.3 CONDOMINIUMS AND PUDS

For condominium loans, an ALTA 4 endorsement or equivalent is required. For PUD loans, ALTA 5 endorsement or equivalent is required.

These endorsements must be attached to each policy or incorporated within the body of the policy. The effective date of coverage is the date of closing.

11.4 TITLE EXCEPTIONS

The title to the subject property that secures the mortgage must be good and merchantable, and free and clear of all liens and encumbrances.

- Survey exceptions are not acceptable.
- If surveys are not commonly required in particular jurisdictions, an ALTA 9 endorsement or equivalent must be provided.
- If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have any survey exceptions.
- Minor impediments to title are acceptable if they do not materially affect the marketability of the subject property. Acceptable title exceptions are as follows:
 - Violations of a restriction based on race, color, or creed, even where such restriction provides for a penalty of reversion or forfeiture of title or a lien for liquidated damages.
 - Customary easements for public utilities, party walls, driveways, or other purposes.
 - Easements for underground conduits which are in place and do not extend under any buildings on the subject property.
 - Mutual easements for joint driveways constructed partly on the subject property and partly on adjoining property, provided the agreements creating such easements are of record.
 - Encroachments by garages or improvements other than those which are attached to or a portion of the main dwelling structure over easements for public utilities provided such encroachment does not interfere with the use of the easement or exercise of the rights of repair and maintenance in connection therewith.
 - Violations of cost or set back restrictions which do not provide a penalty of reversion or forfeiture of title, or a lien for liquidated damages which may be superior to the lien of the insured mortgage.
 - Violations of such restrictions which do provide for such penalties provided such penalty rights have been duly released or subordinated to the lien of the insured mortgage or provided a policy of title insurance is furnished expressly insuring the Commissioner against loss by reason of such penalties.

- Customary building and use restrictions which:
- Are coupled with a reversionary clause, provided there has been no violation prior to the date of the deed to the Commissioner, or
- Are not coupled with a reversionary clause and have not been violated to a material extent.
- Outstanding oil, water or mineral rights or damage caused by the exercise of such rights which are customarily waived by prudent leading institutions and leading attorneys in the community.

11.5 REAL ESTATE TAXES

- Real estate taxes and assessments that are due to and through 60 days after the closing date must be
- paid, whether or not the tax bill has been issued. When the tax assessment has not been issued, then estimated taxes will be used. Title Company to provide tax rate for all applicable taxes (City, Town, Village, School, County, etc.)
- Taxes may be paid prior to or at closing.

11.5.1 TAX INFORMATION SHEET

A Tax Information Sheet is required for all loans. The information may be obtained from the closing agent, title company or tax assessor's office. The following information must be included along with each applicable tax or assessment for the subject property:

- Tax/assessment authority name
- Tax/assessment authority address
- Annual amount of tax or assessment
- Date last paid
- Tax Parcel/Account/ID number
- CHOICE due date
- Frequency of payment (i.e., annual, semi-annual, quarterly)

11.6 PAYOFFS

Updated payoffs for all items to be paid at closing (e.g., taxes, liens, judgments, and outstanding mortgages listed on title) are required. Payoff statements should follow the below:

- The payoff statement expiration should extend to the funding date. If the payoff statement expiration does not extend to the funding date, it must also include per diem.
- If the payoff statement does not have an expiration date and does have a per diem, it will be valid up to 30 days from the date of the payoff demand
- Any payoff statement must contain at least one of the following: an expiration date or a per diem

12. PURCHASE TRANSACTION – CHOICE FOR PURCHASE PROGRAM

On a CHOICE for Purchase, in addition to the standard document and program requirements, the following are required:

- Fully executed real estate purchase contract
- Seller's property condition disclosure, as required by state law, provided by the realtor and signed by the Seller(s)
- Source of funds to close
- Other real estate owned addendum
- Lead Paint Sellers disclosure
- Additional documentation based on specifics of the purchase transaction

12.1 OCCUPANCY REQUIREMENTS

The borrower(s) must occupy the property within 60 days of closing.

12.2 BORROWER RETAINING CURRENT RESIDENCE

When prospective borrower(s) intend to retain their existing home as a rental property, we must ensure they have sufficient income to:

- Maintain the costs associated with the new home financed with the CHOICE for Purchase (e.g., taxes, insurance, maintenance),
- Continue to make the mortgage payment and tax and insurance payments on the existing mortgage,
- Upon including the monthly expenses for the current residence, the borrower(s) MUST have sufficient residual income meeting Financial Assessment requirements.

12.3 BORROWER SELLING CURRENT RESIDENCE

- If the sale is closing prior to the closing of the CHOICE for Purchase, a final, fully executed HUD-1
 - Settlement Statement or equivalent will be required prior to closing.
 - If proceeds from the sale of the current residence are being used for closing funds on the CHOICE for Purchase, we require copies of disbursement checks and/or wires
 - Depending upon the timing from sale of the current residence to closing of the CHOICE for Purchase evidence of deposit of sale proceeds may be required
 - If the sale will not close before the closing of the CHOICE for Purchase, follow the "Borrower Retaining Current Residence" guidelines above.

12.4 SALES CONTRACT

A copy of the clearly legible contract of sale including all amendments, modifications, change orders, or other agreements/disclosures must be in the loan file.

Any cross-outs must be initialed by all parties and be reviewed by the Underwriter.

All pages to the contract, any amendments, disclosures, as applicable are required.

Note: Copies of sales contracts created using electronic signatures are acceptable with the exception of the HUD REO sales, which require original signatures. Electronically signed contracts must comply with the requirements previously noted. See Electronic Signatures

The following must be included in the Contract of Sale:

- Contingency for a Home Inspection conducted by a qualified Home Inspector
- Language indicating Seller is responsible for completing and paying for repairs that affect the safety and soundness of the property.
- It is recommended that the Contract of Sale (COS) also include:
 - Mortgage Contingency
 - Contingency for the sale of existing residence (if proceeds are needed to complete this transaction).
- Provide a copy of the COS, and any amendments to the appraiser/AMC.
- An individual who is a party to the COS, but is not a CHOICE borrower will need to be removed from the COS. The contract of sale must be in the borrower(s) name only.

12.5 LAND CONTRACT

If the borrower(s) will use purchase proceeds to complete payment on a land contract, contract for deed, or other similar type financing agreement in which the borrower(s) do not have title to the property, the new mortgage MUST be processed as a Purchase.

Equity in the property (original sales price minus the amount owed) may be used for the borrower(s) down payment.

The following documentation must be obtained:

- Copy of the Recorded, fully executed, Land Contract. It must be recorded.
- Satisfactory evidence of the last 12 months of payments. e.g.,
 - 12 months cancelled checks (front & back),
 - copy of 12 months bank statements showing direct withdrawal, 1
 - 2-month payment receipt history from CPA/Legal Counsel/Managing Agent.

- Obtaining a written statement from the Seller(s) or Seller(s) agent will not be sufficient. It must be supported by adequate documentation.
- Payoff statement (Sales price – funds received)

12.6 SALES PRICE

If the sales price exceeds the appraised value, the borrower(s) must write a letter acknowledging that the appraised value is less than the sales price and express his/her/their intent to proceed with the CHOICE for Purchase at the sales price

Note: the appraised value will be used for lending purposes.

12.7 PROPERTY FLIPPING

Smartfi and the originator must take the following additional steps to ensure that the borrower(s) have not been coerced into obtaining a reverse mortgage:

- Confirm only current owners of record may sell properties.
- Any resale of a property may not occur 90 or fewer days from the last sale to be eligible; and
- For re-sales that occur between 91 and 180 days where the new sales price exceeds 100% of the previous sales price, a second appraisal must be obtained.
- Any large increase in value must be supported by documented improvements since the last purchase and be well supported by the appraisal comparable sales.

12.8 COUNSELING CERTIFICATE

If the contract date is prior to counseling, the subject property must be listed on the counseling certificate.

12.9 INSPECTIONS

A Home or Pest inspection is not typically required unless requested at underwriter discretion or when required by any of the following:

- State regulations
- Appraiser

12.10 REPAIRS

The seller must complete and pay for all structural repairs that affect the safety and soundness of the property prior to closing. Repair Set-Asides are not allowed.

12.11 NON-ARMS-LENGTH TRANSACTION - INELIGIBLE

A non-arms-length transaction is one where the parties to the loan and/or sales transaction are related, such as family member, employer/employee. Or principal/agent. This relationship may influence the transaction.

With non-arms-length transactions it is sometimes difficult to determine the specific details of the transaction. The additional risks/signs of a non-arms-length transactions could include:

- Financial bailouts or attempts to hide poor credit
- The purchase price may not represent actual consideration given
- Occupancy concerns
- Financing of unsold builder inventory, especially in soft real estate markets
- Inflated appraised value

12.12 SOURCE OF FUNDS

Prospective borrowers must use their own money (money obtained from sale of assets, sale of current home, sale of personal property) or gift for the required monetary investment, and to pay for all closing costs typically associated with purchasing a property and obtaining financing.

The seller must pay all costs typically associated with selling a property. If the contract of sale notes that the buyer and/or buyer and seller will be splitting a fee that is typically paid for by a seller (e.g., transfer tax) we must include those fees in our calculations to determine if the borrower has sufficient funds to close. These fees must have been disclosed to the borrower(s) on the Good Faith Estimate (GFE).

A Verification of Deposit, and the most recent bank statement with the prior month's ending balance OR the two (2) most recent, consecutive bank statements with previous month's balance, may be used to verify checking and savings accounts.

If a gift is being used, a gift letter, evidence of donor's ability to provide the gift, and evidence that the funds have been transferred into the borrower's account are required.

A copy of the Final, fully executed HUD-1 and copies of the distribution checks and/or wires are required.

12.13 VERIFICATION OF EARNEST MONEY DEPOSIT/DOWN PAYMENT

- Must verify and document the deposit amount and source of funds, if the amount of earnest money deposit
- Exceeds one (1) percent of the sales price; or
- Appears excessive based on the borrower's history of accumulating savings Satisfactory documentation includes:
 - A copy of the borrower's cancelled check
 - Certification from the deposit holder acknowledging receipt of funds & evidencing clearing the borrower(s) account(s), AND
 - Copy of the borrower(s) bank statement showing withdrawal of the earnest money deposit

12.14 INELIGIBLE FUNDING SOURCES

- Bridge Loan
- Loan(s) against other real estate owned (REO)
- Subordinate liens
- Personal Loans
- Cash withdrawals from credit cards
- Seller financing
- Any other lending commitment
- Loans against borrower(s) assets (401k accounts, life insurance policies, brokerage accounts)
- Sweat Equity
- Trade Equity
- Rent Credit
- Down payment assistance programs (DAP)

12.15 PURCHASE INCENTIVES

Any personal items beyond the "typical and customary" items may require a third (3rd) party estimate, and reduction from the accepted sales price. As an exception, the underwriter may allow the personal property transfer if all parties (buyer, seller, and listing/closing agents) state that the personal property had no bearing on the final negotiated sales price and is conveying solely out of convenience for both parties.

12.16 ALLOWABLE FEES

Only fees typical to the market or required under state or local law may be charged. Therefore,

- Seller/Interested party contributions up to 6% of the Sales Price are permitted. Contributions are funds that may be provided by the seller, or any other interested party such as the lender, builder, developer, real estate agent or affiliates, that are used to pay closing costs normally paid by the client.
- Taxes and HOA fees must be prorated.

12.17 NEW CONSTRUCTION

Certificate of Occupancy (CO) or its equivalent must be provided in the loan file. A permanent CO or its equivalent is required prior to closing. A Temporary CO is permitted when there are outstanding repair items that are weather related.

13. STATE REQUIREMENTS FOR MORTGAGE ORIGINATORS/LENDERS

13.1 WASHINGTON:

13.1.1 CROSS-SELLING

Smartfi or any other party that participates in the origination of a reverse mortgage loan must not require an applicant for a reverse mortgage to purchase an annuity, insurance, or other financial product as a condition of obtaining a reverse mortgage loan. Smartfi or the broker of a reverse mortgage loan must not:

- Offer an annuity, insurance, or other financial product to the borrower prior to the closing of the reverse mortgage or before the expiration of the borrower's right to rescind the reverse mortgage agreement;
- Refer the borrower to anyone for the purchase of an annuity, insurance, or other financial product prior to the closing of the reverse mortgage or before the expiration of the borrower's right to rescind the reverse mortgage agreement;
- Provide marketing information or sales leads to anyone regarding the prospective borrower or receive any compensation for such an annuity, insurance, or other financial product sale or referral; or
- You or any other party that participates in the origination of a reverse mortgage loan must maintain safeguards, acceptable to the department of financial institutions, to ensure that you do not provide reverse mortgage borrowers with any other financial or insurance products and that individuals participating in the origination of a reverse mortgage loan have no ability or incentive to provide the borrower with any other financial or insurance product.

13.1.2 PROHIBITION OF UNFAIR OR DECEPTIVE PRACTICES

It is an unfair or deceptive practice to make a reverse mortgage loan that is unsuitable for a particular borrower. Smartfi Home Loans will not close a reverse mortgage that appears unfair or deceptive. Examples of circumstances which might indicate that an offered reverse mortgage loan is unsuitable include reverse mortgage loans when the applicant:

- Does not intend to reside in the property on a long-term basis.
- Does not want nonborrower residents of the property to be displaced at the maturity of the loan because they will not be able to pay off the reverse mortgage loan.
- Will use the proceeds of the reverse mortgage loan to purchase a product, such as annuities or other investments, which are not appropriate for the borrower.
- Does not understand the terms and conditions of a reverse mortgage loan or what happens to the collateral when the reverse mortgage loan matures.
- Would receive disbursements from the reverse mortgage loan that are insufficient to meet the applicant's stated needs or is not enough to justify the initial cost of a reverse mortgage loan.

13.2 SOUTH CAROLINA

Smartfi cannot accept an application for a reverse mortgage unless the borrower states in writing that he/she/they received the statement from Smartfi at the time of initial loan inquiry. The required disclosure is included in our application package.

14. STATE REQUIREMENTS AND COMMITMENT LETTERS REVISION HISTORY

14.1 HIGH COST TEST

UTAH- High Cost test must be completed at the time of application and at the time of closing. The loan must pass the High Cost test to be eligible.

14.2 COMMITMENT LETTERS

District of Columbia – Smartfi must provide the borrower(s) with a Lender Financing agreement at least 72 hours prior to closing. 3 Calendar day cooling off from the day the borrower(s) execute/date Financing Agreement requirement.

Illinois- The borrower(s) are provided a written commitment and cooling off period at Clear to Close. The commitment letter must be signed and dated by the borrower(s) and returned to Smartfi. Smartfi must provide a 3 full business day cooling off period that starts the day the

borrower(s) date the commitment letters. A Sunday or legal public holiday do not count as a business day.

Louisiana-The borrower(s) are provided a written commitment and cooling off period at Clear to Close. The commitment letter must be signed and dated by the borrower(s) and returned to Smartfi. Smartfi must provide a 7 Calendar day cooling off period that starts the day the borrower(s) date the commitment letters.

Utah- The borrower(s) are provided with a written commitment and a cooling off period at clear to close. The commitment letter must be signed and dated by the borrower(s) and returned to Smartfi. Smartfi must provide a 5 Calendar day cooling off period that starts the day the borrower(s) date the commitment letter.

15. REVISION HISTORY

DATE	REVISION	REVISIONS MADE
11/03/2022	2.0	See below for changes
	2.1	Added Eligibility Age
	2.2	Clarified Benefits Test
	2.3	Updated Minimum Credit Score
	2.5	Added 1099 for pension documentation
	2.6	Changed Student Loan payment calc.
	2.7	Updated Residual Income Requirements
	2.8	Clarified Attorney Opinion Letter requirement
	2.9	Removed Declining Market adjustment
07/18/2023	3.0	See below for changes
	3.1	Updated State eligibility age
	3.2	Added UT counseling requirements
	3.3	Added UT High Cost requirements
	3.4	State Requirements SC
	3.5	Added requirements Commitment Letters
	3.6	Added back in the Declining Market adjustment
	3.7	Amendment to FEMA non-declared disaster section
08/04/2023	3.8	Hazard insurance for FL and TX

10/21/2024	4.0	See below for changes
	4.1	Eligible Age – State IN added for age of 55
	4.2	Clarification on CAIVRS requirements
	4.3	Medical Collection no longer to be included in Obligations
3/3/2025		Update to HOA history section 4.8
4/8/2025	4.4	Update Prop to Prop seasoning requirements
	4.5	Clarification added Well/Septic and Shared Wells