- YTD paystub or salary voucher documenting at least one month of income. Borrower expects to be rehired next season.
- W-2s covering the two most recent years.
- Verbal VOE within 20 business days prior to the date printed on the Note. Proof of receipt of unemployment compensation for two years.

BORROWER'S INCOME PER JOB/CONTRACT BASIS
Borrowers whose income per job/contract basis is equal to or greater than 25% of their total income are considered to be self-employed. See INCOME ANALYSIS – SELF-EMPLOYED BORROWERS.

AUTOMOBILE ALLOWANCE
An automobile allowance may not be used for qualifying and may not be used to offset a car payment.

CAPITAL GAIN INCOME
Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements:
- Must have a two-year consecutive history of receipt and likely to continue for the next three years.

RESTRICTED STOCK
Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options.

To document restricted stock income include the following:
- Issuance agreement or equivalent (part of the benefits package)
- Schedule of distribution of units (shares)
- Vesting schedule
- Stock must be publicly traded
- Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)

Calculation of income:
- Stock price should be averaged.
- In most cases the lower of current price or the price of the stock averaged (generally a minimum of 2-years) should be used to support qualifying income. The average stock price should be applied to the number of stock units vested each year.
- Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. If stock income is declining, refer to DECLINING INCOME POLICY (SELF-EMPLOYMENT, BONUS, OVERTIME, COMMISSION, RESTRICTED STOCK.

Future vesting must support qualifying income. Value of future vesting should be based on the lower of current value or the average of stock price.

EMPLOYMENT BY RELATIVES OR TRANSACTION PARTICIPANTS
If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained:
- Borrower's signed and completed personal federal income tax returns for the most recent two years.
- If business is a corporation, obtain either of the following:
  - A signed copy of the corporate tax return showing ownership percentage.

  - A signed letter from the corporation accountant stating the borrower has no ownership interest in the corporation.

- Most recent two years' W-2 forms. Year-to-date pay stubs covering 30 days.
- Verbal verification of employment (Exhibit 3) within 20 business days prior to the date printed on the Note.

Current income reported on the pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current pay stubs, further investigation is needed to determine whether income is stable.

MILITARY INCOME

Military Income – Active Duty Personnel – Within 12 Months of Release from Active Duty

The date that the in-service borrower is scheduled to be released from active duty must be verified. The date of separation is on the enlisted personnel's Leave and Earnings Statement (LES). An officer's LES does not show a date of separation. In most cases, a copy of the Statement of Service is satisfactory verification of continued service.

When the separation date is verified by a VOE, LES, and Officer's Orders, or other documentation, and indicates the veteran will be released from active duty within 12 months of the projected date upon which the Loan will be closed, the file must include one of the following:

- Documentation that the service member has reenlisted or extended the period of active duty to a date beyond the 12-month period following the projected Loan closing date.
- Verification of civilian employment following the release from active duty (with all pertinent underwriting documentation, such as job position, rate of pay, start date, number of hours scheduled per week, and probability of continued employment).
- A statement from the borrower indicating the intention to reenlist or extend active duty to a date beyond the 12-month period and a statement from the veteran's commanding officer confirming that the service member is eligible to continue on active duty and the commanding officer has no reason to believe the reenlistment or extension of active duty will not be granted.
- Other strong positive underwriting factors that minimize the effect of the possible discharge such as a non-military spouse's income being so high that only minimal income from the active duty member is needed to qualify, along with evidence that the veteran and spouse will be remaining in the community in which the property is located. A down payment of at least 10% and exceptional cash reserves would also minimize the effect of a possible release from active duty.

Military Income – Probability Of Continued Employment

If an employer declined to indicate the probability of continued employment on a verification of employment, the lender is not required to make any further attempt to get such a statement.

Military Income – Non-Taxable Income

Some military income is non-taxable. Other military income is partially taxed. Examples include:

- Base pay is the only income taxed for social security on in-service personnel.
- Base pay, Propay, sea pay, and flight pay are federally and state taxed.

Quarters allowance, variable housing allowance, clothing allowance, and rations are not taxed. See Other Income – Non-Taxable Income.

Military Income – Reservist or National Guard (Called To Duty) Obligation

Broker must ask every applicant, whose income is being used to qualify for a Loan, if their income is subject to change due to participation in a reserves/national guard unit due to activation.

When the answer is yes, broker must determine what the applicant's income may be if activated. If the income is:

- Reduced – carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.
- Increased – consider the likelihood the income will continue beyond a 12-month period.

Underwriters will evaluate all aspects of each individual case, including credit history, accumulation of assets, and overall employment history and make the best decision for each Loan regarding the use of income in qualifying for the Loan.

It is very important that Loan files be carefully and thoroughly documented, including any reasons for using or not using reservist income in these situations.

Weigh the desire to provide veterans their benefit with the responsibility to ensure the veterans will not be placed in a position of financial hardship.

To accomplish this, a statement must be obtained that affirms that a veteran-applicant's status relative to membership in the Reserves or National Guard has been ascertained and considered. The statement should be made as part of the origination package.

Military Income – Military Reserve Income

For income to be used for qualifying purposes, substantiate income by documenting all of the following:

- The continuity of employment and income history for the two years that precede the date of the mortgage application.
- YTD LES documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note. (In lieu of a verbal VOE, a military LES within 30 days prior to the date printed on the Note date is acceptable).
- Provide proof that entitlements are expected to continue over a three-year period.

MORTGAGE DIFFERENTIAL INCOME

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments.

When calculating the qualifying ratio, the differential payments are added to the borrower's gross income.

The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower. Two-year history is not required. The payments must be likely to continue for the next five years; However, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

PUBLIC ASSISTANCE/GOVERNMENT ASSISTANCE INCOME

In order to be included in the borrowers' qualifying income, income from public assistance programs must be verified as received for the past two months and must reasonably be expected to continue for at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income. Public assistance income should be documented by letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.

DISABILITY INCOME – LONG-TERM

General Requirements

Permanent/Long-term disability benefits may be paid to the applicant by a Federal agency, such as the Social Security Administration or Veterans Administration, a State agency, a private insurance company, workers compensation insurance, an employer, or other disinterested third party.

Continuance

Continuance is not required for Social Security Disability Income (SSDI). For all other types of long-term disability income, the income must be likely to continue for the next 5 years. The continuance requirement may be reduced to 3 years if this income source contributes 25% or less of the qualifying income.

- If documentation does not contain any indication that the income will terminate within the next 5 years, assume income will continue for the next 5 years.
- If documentation indicates a termination date or conditions for termination of the payment, the termination must not occur within the next 5 years.

  Note: If the documentation indicates the borrower's benefits are subject to periodic reviews or evaluations, this is not an indication that the income is unlikely to continue and does not require additional documentation for determining likelihood of continuance.
- If documentation indicates an expiration or modification date (such as reaching a certain age, etc.), verify that the remaining term is for at least 5 years.

Documentation

An Award Letter or equivalent written documentation confirming the source, amount, frequency, and borrower as the recipient of the payments must be provided.

Calculation Requirements

- Use the actual monthly amount received unless disability income is non-taxable. Refer to Other Income - Non-Taxable Income requirements in this Section regarding grossing up income.
- If the documentation indicates a reduction of the payment, use the lowest income indicated during the next 5-year period.

TEMPORARY LEAVE/SHORT-TERM DISABILITY/FAMILY LEAVE INCOME

Temporary Leave

Temporary leave from employment is typically short in duration and may be for many reasons, including parental (maternity or paternity) leave, short-term disability, and family leave. It may be taken with or without pay.

A borrower that is on, or scheduled to be on, temporary leave may still qualify for approval. A Loan with a borrower on temporary leave, including parental leave, is not ineligible for purchase merely because of such leave status. NMSI may purchase a Loan with a borrower on temporary leave provided:

- The application meets applicable underwriting and regulatory requirements
  AND
- The income used to qualify the borrower is sufficient to meet applicable debt-to-income ratios

The borrower must state they intend to return to work. The borrower is not required to return to work prior to closing.

If a borrower will not return to active work status on or before the first mortgage payment due date, temporary income received (if any) during the leave period and verified liquid assets after closing and reserves may be evaluated for use as qualifying income.

Calculation Requirements

For borrowers returning to work with their current employer prior to or on the first Mortgage payment due date:

- Qualify using pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status.

For borrowers that will not return to work prior to or on the first Mortgage payment due date:

- Qualify using the lesser of:
  - The borrower's temporary leave income (if any) combined with any available supplemental asset income.
    OR
  - Pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status.
- If the temporary leave income is less than the borrower's pre-leave regular gross monthly employment income, available verified liquid assets may be used as a partial or complete income supplement to the temporary leave income if all of the following requirements are met:
  - Only verified liquid assets can be used to supplement temporary leave income.
  - Assets that are required for the subject transaction (e.g., down payment, closing costs, and reserves) may not be used to supplement the borrower's temporary leave income.
  - Supplemental asset income amount must be calculated as follows:
    - Available, verified liquid assets divided by the number of months of supplemental asset income.
    - The number of months of supplemental asset income is determined by the number of months from the first Mortgage payment due date to the date the borrower will begin receiving regular employment income after returning to work (i.e. pre-leave income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status), rounded to the next whole number. (See example provided in table below)

    *Note: I*f using assets to supplement income, manually reduce the assets before data entry of assets to avoid counting the same portion of these assets for both income and assets.
  - Written rationale explaining the analysis used to determine the qualifying income.

Supplemental asset income calculation example:	
Preleave income amount	$6,000 per month
Temporary leave income	$2,000 per month
Total verified liquid assets	$30,000
Funds needed to complete the transaction	$18,000
Available liquid reserves	$12,000 ($30,000 $18,000 = $12,000)
First payment date	July 1
Date borrower will begin receiving regular employment income	November 1
Supplemental income	$12,000/4 = $3,000
Total qualifying income	$3,000 + $2,000 = **$5,000**

Documentation Requirements

All of the following:

- Verbal verification of employment. If the employer confirms that the borrower is currently on temporary leave, NMSI considers the borrower employed.
- Documentation of the borrower's pre-leave income and employment, regardless of leave status. And,
- Written statement from the borrower confirming he or she intends to return to active work status at the

current employer and the intended date of return (must be consistent with employer-generated document). And,

- Documentation generated by current employer confirming the borrower's eligibility to return to the current employer after temporary leave and the duration or end date of the leave period.
  - ✓ Acceptable forms of employer documentation include, but are not limited to:
    - An employer-approved leave request, or
    - A Family Medical Leave Act (FMLA) document, or
    - Other documentation generated by the employer or a third-party verifier on behalf of the employer

AND

The following documentation is required if the borrower will not return to work prior to or on the first Mortgage payment due date AND where the borrower relies upon temporary leave income (not limited to short term disability benefits) for qualification purposes:

- Award Letter or equivalent written documentation confirming the following:
  - The amount and duration of the temporary leave income, and
  - The borrower as the recipient of the payments, and
  - The name of the payer (insurance company, employer, agency, or other qualified and disinterested party)
- If liquid assets are used to supplement income, assets must be verified and meet documentation requirements.

ROYALTY PAYMENTS

Royalty payments must have a 12-month history of receiving payments on a regular basis and must have a continuation period of at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

Obtain completed, signed, individual federal tax returns for the most recent two years, including Supplemental Income and Loss and Schedule E, and a signed 4506-T.

SECTION 8 HOMEOWNERSHIP ASSISTANCE/HOMEOWNERSHIP SUBSIDIES

A monthly subsidy may be treated as income, if the borrower is receiving subsidies under Section 8 housing choice voucher home ownership option from a public housing agency (PHA). There is no requirement for the payments to have been received for any period of time prior to the date of the mortgage application. Section 8 voucher payments must be reasonably expected to continue for at least five years from the date of the mortgage application; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

The monthly subsidy must be treated as income in determining the homebuyer's qualifying ratios when the monthly subsidy is remitted to the borrower.

RETIREMENT INCOME

Retirement income may be used if properly verified.

Acceptable documentation is:

- Most recent two months of bank statements, and one of the following:
  - Written verification from former employer
  - Federal tax returns
  - IRS 1099-R form

SOCIAL SECURITY INCOME

Social security income may be used if properly verified. Examples of acceptable documentation are:

- Most recent two months of bank statements.
- Social Security Administration benefit verification letter (sometimes called a proof of income letter, budget letter, benefits letter, or proof of award letter).

TIP INCOME

Tip income must be verified with two-year history of receipt.

To document, obtain all of the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note. The employer must verify that the tip income is expected to continue in the written VOE or in a separate statement.

FOSTER CARE INCOME

Income derived from foster care payments may be considered if written verification can be obtained that the income is regular, recurring, and continued receipt is likely. A two-year history of providing foster care services under a recognized program from a state- or county- sponsored organization is required. Income used to qualify must be averaged over this two- year period. Projected income may not be used. The income must be likely to continue for the next three years.

CHILD SUPPORT, ALIMONY, OR MAINTENANCE INCOME

Child support, alimony, or maintenance payments may be used as income only if this information is volunteered by the applicant, and if there is evidence that the court-ordered amount has been received on a continual basis for the most recent 12 months. In order to be used as income, these payments must reasonably be expected to continue for a five-year period; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.

If the payor has been obligated to make payments for less than 12 months, if the payments are not for the full amount, or are not received on a consistent basis, the income may not be considered for qualifying.

Required documentation:

- Final divorce decree
- Legal separation agreement
- Court order
- Voluntary payment agreement that has been approved by a court or is government- enforceable (for example, administered by a state agency) and acceptable evidence that payments have been received during the last 12 months, such as:
  - Canceled checks
  - Deposit slips or deposit receipts
  - Bank or other account statements
  - Tax returns
  - Court records

ALIMONY AND SEPARATE MAINTENANCE PAYMENTS TO BE PAID

Required alimony and separate maintenance payments must be deducted from income and should not be included in monthly liabilities. Alimony and separate maintenance payments must be documented with a copy of the court order (such as a divorce decree).

Required Alimony or separate maintenance with less than 10 monthly payments remaining does not need to be deducted from income. A copy of the court order is required.

NON-TAXABLE INCOME

Special consideration can be given to regular sources of income that are non-taxable such as: Child Support

- Disability benefits
- Retirement income
- Worker's Compensation benefits
- Military allowances
- Other income that is documented as being exempt from Federal income taxes

To be considered as qualifying income, the underwriter must obtain documentation verifying that:

- The particular source of the income is non-taxable
- Both the income and its non-taxable status are likely to continue

Acceptable documentation includes tax returns and/or awards letters. If the income meets these requirements, the amount of tax savings attributable to the non-taxable income may be added to the borrower's income to develop an adjusted gross income. The adjusted gross income is used in calculations for the income and debt rations. Standard qualifying ratios should not be exceeded when using grossed up income.

The following method must be used to determine the amount of tax savings that can be added back to the borrower's income:

- Add 25% of the non-taxable income to the borrower's qualifying income. This adjustment must be made whenever the non-taxable income source(s) is needed to qualify the borrower.

INTEREST OR DIVIDEND INCOME

Interest and dividend income may be used in calculating the qualifying income if the assets generating the income are verified and the interest income has been received for at least two years consecutively.

Complete, signed, individual tax returns for the most recent two years and a 4506-T must be used to verify this income.

The income must be averaged over 24 months. Subtract any funds used for down payment, closing costs, or as collateral for a Loan before calculating the interest at the rate of return received over the past 24 months.

Interest and dividend income must be expected to continue for three years if included in qualifying income.

NOTES RECEIVABLE, INSTALLMENT SALES AND LAND CONTRACTS

Secured or Unsecured

A copy of the Note is required to establish the payment amount and length of payment.

- Notes receivable payments must continue for at least five years; however, the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income.
- Installment sales and land contracts must continue for at least three years beyond the date of the mortgage application.

Evidence that these payments have been consistently received for the last 12 months must be verified through one of the following:

- Bank deposit slips or deposit receipts
- Canceled checks
- Bank or other account statements

- Tax returns

If the borrower is not the original payee on the Note, validate that the borrower is able to enforce the Note.

TRUST INCOME

Trust income may be used if the trust income will continue for at least five years; however the continuance requirement may be reduced to three years if this income source contributes 25% or less of the qualifying income. A photocopy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of the payments should be obtained to verify the income and continuance of the income.

Trust account funds may be used for the required down payment, closing costs, and reserve (post-closing liquidity) if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

If trust agreement or trustees statement does not provide historical level of distributions, most recent two years of tax returns must be obtained.

FOREIGN INCOME

Foreign income, for borrowers who do not qualify under the borrower requirements, is acceptable only if the income can be verified on United States personal tax returns.

Foreign income should be paid in United States currency. However, income paid in foreign currency may be considered on a case-by-case basis if it is converted into United States currency.

The following documentation requirements must be met:
Funds in foreign accounts: Must be transferred to U.S. account. Completed Verification of Deposit (VOD) or the two most recent months' bank statements for U.S. account.

Foreign Source – Employment Income:

- Most recent two years complete personal tax returns (IRS Form 1040).
- For Foreign National borrower only: Form W-8 (If borrower does not have tax ID number) or Form W-9 (If borrower has tax ID number) and letter from employer (translated into English) with:
    - annual income for most recent two years,
    - current monthly income,
    - current employment status,
    - name and title of person providing information,
    - borrower's job title, and
    - term of employment.
- A Verbal VOE (Exhibit 3) within 20 business days prior to the date printed on the Note is required.
- Tax transcripts from processed 4506-T may be used in lieu of tax returns provided by the applicant.

Foreign Source – Interest/Dividend Income:

- Most recent two years individual federal income tax returns (IRS Form 1040).

UNACCEPTABLE INCOME

The following types of income or compensation cannot be included when calculating the borrower's qualifying income:

- Expense account payments. Automobile allowances.

- VA education benefits – education benefits used to offset education expenses are not acceptable.
- Retained earnings in a company.
- Rent from boarders living in the borrower's primary residence or second home. Proceeds from a reverse mortgage or other financing.
- Gambling income.

DEPARTURE RESIDENCE POLICY

CURRENT PRINCIPAL RESIDENCE IS PENDING SALE BUT WILL NOT BE SOLD (CLOSED) PRIOR TO THE NEW TRANSACTION:

Both the current and the proposed mortgage principal, interest, taxes and insurance (PITI) payments must be used to qualify the borrower for the new transaction, unless the following requirements can be met:

- A copy of the fully executed non-contingent sales contract for the departure residence (cash sale of the departure residence is not allowed), and
- A lender's commitment from a regulated institution to the buyer of the departure residence with all financing contingencies cleared, and
- Standard reserve requirements plus an additional six months PITI for departure residence. Borrower is required to have a 20% equity position in the departure residence based on contracted sales price. Further documentation may be required if there is a significant difference between the sales price and estimated property value.

When the departure residence will not be sold at the time of closing and is in a negative equity position, the following may be required to reduce the overall risk:

- Additional reserves to cover the negative equity of the departure residence, OR
- Pay down the lien on the departing residence to eliminate the negative equity.

EXISTING PRINCIPAL RESIDENCE CONVERTING TO SECOND HOME

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction, and,
- Reserve requirements are the greater of six months PITI for both properties or the standard post-closing/reserve requirements.

EXISTING PRINCIPAL RESIDENCE CONVERTING TO INVESTMENT PROPERTY

If there is documented equity of at least 30 percent in the departure property, 75 percent of rental income may be used to offset the mortgage PITI payment in qualifying when:

- Reserve requirements are the greater of six months PITI for both properties or the standard post-close liquidity, and
- Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a two-year history of managing investment properties, as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, and
- Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.

If rental income will not be used to offset the mortgage payment to qualify, the following reserve requirements must be met:

- The greater of six months PITI for both properties or the standard post-closing/reserve requirements.

If 30 percent equity in the departure property cannot be documented, or the borrower does not have a two-year history of managing investment properties as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, rental income may not be used to offset the mortgage PITI payment in qualifying and:

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; and
- Reserve requirements are the greater of six months PITI for both properties or the standard post-closing/reserve requirements.

DEPARTURE RESIDENCE CONVERTING TO INVESTMENT PROPERTY EQUITY POSITION

To document equity position in the departure property converting to an investment property, a full appraisal must be obtained.

The appraisal must be dated within 120 days of the date printed on the Note of the current transaction.

ASSET

BONUS INCOME USED FOR CASH TO CLOSE

A borrower's recent bonus may be used for cash to close when the impact to borrower's qualifying income is analyzed.

It may be required to deduct the bonus from qualifying income when it is used as cash to close if the Underwriter determines that the borrower is unable to meet all financial obligations and living expenses until the next bonus payout. Considerations may include, but are not limited to:

- How often is the bonus paid (i.e. quarterly, semi-annual, annual) and what is the date of the last bonus payout?
- What is the amount of the bonus used for cash to close?
- Are base income and liquid reserves sufficient to allow borrower to meet all obligations and living expenses until the next bonus is received?
- Are liquid reserves sufficient to ensure the borrower has the ability to repay obligations in a timely fashion and to support the borrower's overall income profile for acceptable risk?
  Refer to Cash Assets for additional requirements for cash assets used for down payment and closing costs.

USE OF CREDIT CARD FOR PAYMENT OF FEES

A credit card may be used to pay fees associated with the Mortgage. Acceptable fees are:

- Appraisal
- Credit Report
- Origination fee
- Commitment fee
- Lock-in fee
- Extended Lock fee

Acceptable credit cards are:

- Visa
- MasterCard
- Discover

The Loan must meet all of the following requirements:

- Borrower must have sufficient liquid assets to pay the amount charged (in addition to all other Closing costs).
- The maximum amount charged or advanced may not exceed 2 percent of the Mortgage amount.
- Under no circumstances may credit card financing be used for the down payment.

- The amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of that amount must be included when determining qualifying ratios (greater of $10 or 5 percent of the outstanding balance).
- A copy of the charge receipt must be included in the Loan file.
- The HUD-1 or Closing Disclosure must reflect a paid outside/before Closing (POC) credit to the borrower for the amount charged.

USE OF PREMIUM PRICING

For all transactions, the funds derived from premium pricing (Credit for Interest Rate Chosen, CFIRC), are only allowed to be used to pay the borrower's typical Closing costs and/or prepaid expenses.

Typical prepaid items paid by the borrower:
- Interest charges covering any period after the settlement date.
- Real estate taxes covering any period after the settlement date.
- Hazard insurance premiums.
- HOA dues

Typical Closing costs paid by the borrower:
- origination fee
- discount points
- appraisal fees
- title searches and surveys
- title insurance
- taxes
- deed-recording fees
- credit report charges

CFIRC may not be used to pay any portion of the borrower's down payment, personal debts (ex: revolving debt), collection accounts, judgments, escrow shortages or any other item that is not considered a typical prepaid item or typical Closing cost paid by the borrower as listed above. Other property improvement expenses not related to the transaction or not required by the purchase contract are not allowed.

For transactions where CFIRC exists, cash back to the borrower as a result of the premium pricing is restricted to the lesser of 1% of the Loan amount or $2500.

GIFT FUNDS

For primary homes, the full down payment may be from a gift when the LTV/CLTV is 80 percent or less.

USE OF BUSINESS FUNDS

When a borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves (post-liquidity) if both of the following conditions are met:

- Business average annual cash flow is greater than the amount to be withdrawn/reserves.
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three-year history of a balance greater than or equal to the amount being considered for reserves (post-closing liquidity) or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future.

The following questions need to be considered:
- What is the pattern of company cash flows? Do we have declining gross or net income?
- Do we have concerns about the type of business? Is the business experiencing a downturn?

Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transaction.

PROCEEDS FROM SECURED LOANS

Subordinate Financing

Subordinate financing, Closed End or HELOC, is allowed subject to the guidelines in Subordinate Financing.

The maximum LTV/CLTV* may not exceed the guideline limits for the product and occupancy type shown in Jumbo LTV Matrix.

*For Jumbo Loans, the CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit – rather than the amount of the HELOC in use – must be used.

IRA, 401(K), SEP, KEOGH, 403(B), AND IRS-QUALIFIED EMPLOYER PLANS

IRA, 401(k), SEP, KEOGH, and other IRS-qualified employer plans may be used for down payment and closing costs, up to the post-tax and post-penalty amount available to the borrower for distribution.

A copy of the plan statements for the most recent two months is required. The statement should be reviewed to determine the borrower's vested amount in the plan.

If there is a penalty for withdrawal, discount the asset by the applicable amount. Verification of liquidation is required.

TRADES

Equity from trading a borrower's existing property is acceptable after the borrower has made a five percent cash down payment. The amount of equity is determined by subtracting the outstanding Loan balance of the property that is being traded, plus any transfer costs, from the lesser of that property's appraised value or its trade-in value, as agreed to by both parties.

A separate written appraisal for the property that is being taken in trade is required. A search of the land records to verify ownership of the property and to document if there are any existing liens on the property is also required.

1031 TAX DEFERRED EXCHANGES

Refer to Other Assets For Down Payment.

STOCK, BONDS, MUTUAL FUNDS, U.S. GOVERNMENT SECURITIES AND PUBLICLY TRADED SECURITIES

Allowed. Refer to Cash Assets.

PUBLICLY TRADED STOCKS, BONDS, MUTUAL FUNDS, U.S. GOVERNMENT SECURITIES

A copy of the account statement for the most recent two months/quarter is required; proof of liquidation is required provided that the existence of these accounts is fully documented. When the asset is needed to complete the transaction, verify:
- the borrower's ownership of the asset,

- the value of the asset at the time of sale or liquidation, and
- the borrower's actual receipt of funds realized from the sale or liquidation.

RESTRICTED STOCK SUBJECT TO U.S. SECURITIES AND EXCHANGE COMMISSION (SEC) RULE 144

Many executives receive a portion of their compensation in the form of company stock. When using vested company stock that is subject to SEC Rule 144 the following documentation is required:

- When stock is used for down payment provide proof of liquidation.
- When stock used for reserves provide:
  - Evidence that stock is eligible for resale as defined by the SEC Rule 144,
  - A letter from the company which includes:
    - Vesting statement
    - Eligibility to liquidate stock
    - Current stock price
    - Addresses any additional restrictions on liquidating stock other than those imposed under SEC Rule 144
      Refer to SEC website for the current Trading Volume Formula for calculating eligible value.

DEPOSITORY ACCOUNTS

For all transactions, generally, single deposits that are greater than 50 percent of the borrower's monthly qualifying income should be explained and documented. Consideration will also be given to total monthly income, type of employment, total amount of all assets and reasonableness based on borrower's overall credit and transaction profile.

INELIGIBLE ASSETS

The following assets are not allowed: Sweat equity

- Group Savings
- Pooled Funds
- Saving cash to close
- Stock options in a qualified plan but not fully vested
- Stock options in a non-qualified plan
- Assets held in a UGMA (Uniform Gift to Minors Act) or UTMA (Uniform Transfers to Minors Act)

RESERVES/ POST-CLOSING LIQUIDITY (PCL)

- **Primary Residence Reserve/PCL Requirements**

Loan Amount/Adjusted Combined Loan Amount[1]	Single Family Detached/Attached, PUD, Co-op, Condo	2-unit	3- to 4-unit
Up to $1,000,000	12 months PITI	12 months PITI	36 months PITI
>$1,000,000-$2,000,000	12 months PITI	18 months PITI	
>$2,000,000-$4,000,000	24 months PITI		

1. Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists. (i.e., when subordinate financing is a line of credit, the outstanding balance is used).

- **Second Home – Reserve/PCL Requirements**

Loan Amount/Adjusted Combined Loan Amount[1]	Single Family Detached/Attached, PUD, Co-op, Condo
Up to $1,000,000	18 months PITI
>$1,000,000-$2,000,000	24 months PITI
>$2,000,000-$4,000,000	36 months PITI
1. Adjusted combined Loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.	

- **Investment Property – Reserve/PCL Requirements**

Loan Amount/Adjusted Combined Loan Amount[1]	Single Family Detached/Attached, PUD, Co-op, Condo
Up to $1,000,000	24 months PITI
>$1,000,000-$2,000,000	30 months PITI
1. Adjusted combined Loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.	

Liquid assets verified to meet the reserve (PCL) requirements may be in the form of:
- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of publicly traded stocks, mutual funds, and government securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- Retirement funds may be used to meet up to 50 percent of the minimum reserve requirements.
- Gross retirement funds must be discounted by 30 percent to account for tax consequences (less any outstanding loan balances) to determine the actual funds available for reserve requirements.
  - There must be an additional 10% reduction if an early withdrawal penalty exists.
- 100% of Roth IRA (less outstanding loans)
- Equity proceeds from the sale of a residence.
- Funds held in business accounts may be eligible for use if the requirements detailed in Asset Section are met.

The following assets are ineligible for purposes of meeting the minimum reserve (PCL) requirement:
- Gift funds
- Borrowed funds
- Stock in a closely held corporation
- Proceeds from the sale of assets other than the sale of a residence. Proceeds from a cash-out refinance transaction.

INTERESTED PARTY CONTRIBUTIONS

Property Type	LTV	Contribution[(1)]
Primary Residence	≤80%	6%
1. HOA fees/dues prepaid by any party other than the borrower are not allowed.		

MULTIPLE FINANCED PROPERTIES

- The following guidelines apply to the number of 1-4 unit financed properties owned by all borrowers on the Loan transaction, not just the primary borrower.

Property Type	Then the maximum number of 14 unit properties that may be financed with NMSI is:	and the total maximum number of financed 14 unit properties with all lenders including NMSI is:
Primary	4	4
Second Home	4	4
Investment	4	4

- When aggregate financing for all properties owned by borrower exceeds $3 million one of the following is required: Min. reserve (post-closing liquidity) is 36 months PITI or Max. 50% LTV/CLTV.
- There are no restrictions on the number of properties that a borrower owns free and clear.

APPRAISALS

- All appraisals must be completed by NMSI Approved Appraiser
- Transferred/Assigned appraisals are ineligible.

Total Loan Amount	CLTV	Appraisal Documentation Required		
		Median Home Price Multiple		
		≤4 times Median Home Price	>4 ≤10 times Median Home Price	>10 times Median Home Price
≤ 1,000,000	**All**	One full appraisal (1)	One full appraisal1	One full appraisal1
>$1,000,000 ~ ≤ $1,500,000	**≤70%**	One full appraisal (1)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)
	>70% ≤80%	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)		
>$1,500,000 ~ ≤ $2,000,000	**All**	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)
>$2,000,000	**All**	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)	One full appraisal (1) completed by a certified appraiser (2) and a Residential Valuation Services (RVS) Desk Review (3)

1. A full appraisal is one prepared on form 1004/70, 2090, or 1073. A PIA/PIW, 2055, 1075 or 2095 Summary Report is not acceptable.
2. All appraisals must be completed by a NMSI Approved appraiser
3. RVS review products will be ordered by Investor. LTV/CLTV will be based on the lower of the reviewed value or the sales price.

HIGH DOLLAR APPRAISAL ADDENDUM

A high dollar appraisal addendum is required when the total Loan amount provided by NMSI is greater than $2,000,000 and the property value is greater than $2,500,000 as evidenced by the purchase price or the owner's estimate of value stated on the application. The high dollar appraisal requirement is not based on the appraised value.

The high dollar appraisal addendum must include all of the following:

- A summary of sales located in the subject's immediate neighborhood even if the sales are not considered comparable by the appraiser and even if they are not used in estimating the subject's market value.
- Days on market (DOM) for each comparable sale.
- Marketing time required to realize the market value estimated for the subject property.
- Include a market analysis for all properties priced within 25% of the subject's estimated value that addresses each of the following three factors:
  - In the selected price range, how many sales have occurred in the last 12 months?
  - In the selected price range, how many properties are currently listed for sale?
  - In the selected price range, how many properties have had listings expire or be withdrawn in the last 12 months?
- For purchase transactions, also include:
  - Names and phone numbers of the listing and selling agents.
  - Total listing period for the subject property (include list price decreases, if any).

HIGHER-PRICED COVERED TRANSACTIONS

Qualified Mortgages defined as "Higher-priced covered transactions" under the ability to repay provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Truth in Lending Act (TILA), are ineligible.