



# NQHEM Matrix

Effective Date: 08.07.23  
Posted on 8.21.2023

NQHEM-Plus					NQHEM-Premier					NQHEM									
FICO	Loan Amount	Purchase	R/T	Cash-Out	FICO	Loan Amount	Purchase	Rate & Term	Cash-Out	FICO	Loan Amount	Purchase	R/T	Cash-Out					
720	\$1,000,000	90%	85%	80%	720	\$1,000,000	90%	80%	80%	700	\$1,000,000	85%	85%	80%					
	\$1,500,000	90%	85%	80%		\$2,000,000	80%	75%	75%		\$1,500,000	85%	85%	85%	80%				
	\$2,000,000	90%	80%	75%		\$2,500,000	75%	70%	70%		\$2,000,000	80%	80%	80%	75%				
	\$3,000,000	80%	75%	70%	700	\$1,000,000	85%	75%	75%		\$3,000,000	70%	70%	70%	65%				
	\$4,000,000	70%	70%	N/A		\$2,000,000	80%	70%	70%		\$1,000,000	85%	85%	85%	80%				
700	\$1,000,000	90%	85%	80%	700	\$2,500,000	70%	65%	65%	680	\$1,000,000	85%	85%	80%					
	\$1,500,000	90%	85%	80%		\$1,000,000	80%	75%	75%		\$1,500,000	80%	80%	80%	75%				
	\$2,000,000	85%	80%	75%		\$2,000,000	75%	70%	70%		\$2,000,000	80%	80%	80%	70%				
	\$3,000,000	80%	70%	65%	680	\$1,000,000	80%	75%	75%		\$3,000,000	70%	70%	70%	65%				
	\$3,500,000	70%	65%	N/A		\$2,500,000	70%	N/A	N/A										
680	\$1,000,000	90%	85%	80%	<b>Housing History</b> 0x30x12 <b>Housing Event Seasoning</b> 48 Months <b>Occupancy Restrictions – 2<sup>nd</sup> Home &amp; Investment</b> Max LTV/CLTV • 75% - Purchase • 70% - Refinance Max loan amount - \$2,000,000					660	\$1,000,000	80%	80%	75%					
	\$1,500,000	85%	85%	75%							\$1,500,000	80%	80%	75%					
	\$2,000,000	80%	80%	70%	620	\$2,000,000	70%	70%	65%		\$1,000,000	80%	75%	70%					
	\$3,000,000	70%	70%	65%		\$1,500,000	70%	70%	65%		\$1,500,000	70%	70%	65%					
660	\$1,000,000	80%	80%	75%	<b>Doc Type</b> 1&2 Year Standard Doc 12&24 Month Personal Bank Statement 12&24 Month Business Bank Statement <b>Reserves</b> • LTV ≤ 85%: 6-months of PITIA • LTV > 85%: 12-months of PITIA • Loan Amount > \$1.5 M: 9-months of PITIA • Cash out may be used to satisfy requirement					600	\$1,000,000	70%	70%	65%					
	\$1,500,000	80%	80%	75%							600	\$2,000,000	65%	65%	N/A				
	\$2,500,000	70%	70%	65%															
<b>Housing History</b>					<b>Housing History</b>					<b>Housing History</b>									
1x30x12					1x30x12					1x30x12									
<b>Housing Event</b>					<b>Housing Event</b>					<b>Housing Event</b>									
48 Months					48 Months					48 Months									
<b>Additional Overlays</b>					<b>Additional Overlays</b>					<b>Additional Overlays</b>									
<b>Occupancy Restrictions – 2<sup>nd</sup> Home / Investment</b>					<b>Reserves</b>					<b>Loan Exposure</b>									
Max LTV/CLTV 80% - Purchase 80% - Rate/Term 75% - Cash-Out  Max Loan Amount: \$2,500,000  ** Applies to NQHEM-Plus & NQHEM **					LTV ≤ 75%: No reserves required LTV > 75%: 6-months of PITIA • Loan Amount > \$1.5M: 9-months of PITIA • Loan Amount > \$2.5M: 12-months of PITIA Cash out may be used to satisfy requirement  ** Applies to NQHEM-Plus & NQHEM **					Credit Committee approval is required when HEM exposure to a single borrower exceed 4 loans.  ** Applies to all products **					<b>State &amp; County Restrictions</b> States: • AZ, CT, ID, IL, NJ & OR Counties: • Austin-Round Rock TX, San Francisco/San Jose CA, Sevierville TN, Herber UT Restriction • FICO < 700 ○ Purchase 80% Max LTV ○ Refinance 75% Max LTV  ** Applies to all products **				
DTI																			



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<p>Full Doc 12 &amp; 24 Mo Bank Statement 1 Page Bank Statement w/P&amp;L Gig Qualifier</p>	<ul style="list-style-type: none"> <li>• Maximum DTI is 50%</li> <li>• DTI above 43 must meet residual income guidelines               <ul style="list-style-type: none"> <li>○ See Underwriting Guidelines</li> </ul> </li> <li>• DTI may be increased to 55 on NONQHEM only with the following:               <ul style="list-style-type: none"> <li>○ Min FICO: 680</li> <li>○ Max LTV: 70</li> <li>○ Purchase or Rate/Term Refinance only</li> <li>○ Minimum Residual Income:                   <ul style="list-style-type: none"> <li>○ Greater of .5% of the loan amount or \$2k.</li> <li>○ Increased requirement may be waived with an additional 6 months PITIA reserves</li> </ul> </li> </ul> </li> </ul>	<p>Asset Utilization</p>	<ul style="list-style-type: none"> <li>• Debt Ratio Calculation:               <ul style="list-style-type: none"> <li>○ Minimum Eligible Assets required is the lower of \$1,000,000 or 150% of the loan balance.</li> <li>○ Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84.</li> <li>○ 680 Min FICO</li> </ul> </li> </ul>
<b>Other Requirements</b>			
<p>Interested Party Contributions</p>	<ul style="list-style-type: none"> <li>• 6% - LTV ≤ 70%</li> <li>• 4% - LTV &gt; 70%</li> </ul>		<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Premier Program Requirements</b>			
<p>Product Type</p>	<ul style="list-style-type: none"> <li>• Fixed Rate Terms: 30 years; 7/6 ARM, 10/6 ARM</li> </ul>		
<p>Interest Only</p>	<ul style="list-style-type: none"> <li>• Min Credit Score: 700</li> <li>• Max LTV: 80%</li> <li>• 30-year total loan term, qualification based upon 20-year amortizing payment</li> </ul>		
<p>Loan Amounts</p>	<ul style="list-style-type: none"> <li>• Minimum Loan Amount               <ul style="list-style-type: none"> <li>○ \$150,000 Full Doc</li> <li>○ \$250,000 Alt Doc</li> </ul> </li> <li>• Maximum Loan Amount: 2,500,000</li> </ul>		
<p>Loan Purpose</p>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term</li> <li>• Cash Out</li> </ul>		
<p>Occupancy</p>	<ul style="list-style-type: none"> <li>• Primary</li> <li>• Second Home</li> <li>• Investment</li> </ul>		
<p>Property Type</p>	<p>Eligible Property Types</p> <ul style="list-style-type: none"> <li>• Single Family, Attached or Detached</li> <li>• Condominium               <ul style="list-style-type: none"> <li>○ Max LTV/CLTV 75%</li> </ul> </li> <li>• 2-4 units</li> </ul> <p>Not Eligible:</p> <ul style="list-style-type: none"> <li>• Condotel</li> <li>• Rural</li> </ul>		



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Florida Condos	<ul style="list-style-type: none"> <li>• A structural inspection is required if the project is over 30 years old or 25 years old if within 3 miles of the coast.</li> <li>• Projects with an acceptable inspection, max LTV is reduced 5%.</li> <li>• Projects with an unacceptable or no inspection are not eligible.</li> </ul>
Acreage	<ul style="list-style-type: none"> <li>• Max 20-acres             <ul style="list-style-type: none"> <li>○ Cannot be rural or cannot meet the definition of rural</li> </ul> </li> </ul>
Cash--In-Hand	<ul style="list-style-type: none"> <li>• Max Cash in hand: \$1,000,000</li> </ul>
Appraisals	<ul style="list-style-type: none"> <li>• FNMA Form 1004, 1073 with interior/exterior inspection.</li> <li>• CDA required on all appraisal unless a 2<sup>nd</sup> appraisal is required</li> <li>• 2nd Appraisal required for loans &gt; \$2,000,000.</li> </ul>
Income – Full Doc	<p>Wage/Salary:</p> <ul style="list-style-type: none"> <li>• Paystubs</li> <li>• W-2's</li> <li>• 2-year or 1-Year of Tax Returns</li> <li>• IRS Form 4506-C,</li> <li>• Verbal VOE</li> </ul> <p>Self-Employed</p> <ul style="list-style-type: none"> <li>• 2-years or 1-Year of Personal and Business Tax Returns</li> <li>• YTD P&amp;L</li> <li>• 2-monthly bank statements</li> <li>• IRS Form 4506-C</li> </ul>
Income – Personal Bank Statement	<ul style="list-style-type: none"> <li>• 24 or 12-months of Personal and 2-months of business bank statements.</li> <li>• Qualifying income is determined by the total eligible deposits from the 24 or 12-months of personal statements divided by the number of statements.</li> <li>• The business bank statements must reflect business activity and transfers to the personal account.</li> </ul>
Reserves	<ul style="list-style-type: none"> <li>• 6-months of PITIA</li> <li>• Loan Amount &gt; \$1.5M: 9-months of PITIA</li> <li>• Cash out may be used to satisfy requirements</li> </ul>
DTI Requirements	<ul style="list-style-type: none"> <li>• Max 43%</li> </ul>
Gift Funds	<ul style="list-style-type: none"> <li>• Min contribution             <ul style="list-style-type: none"> <li>○ 5% primary</li> <li>○ 10% Investment</li> </ul> </li> </ul>
Tradelines	<ul style="list-style-type: none"> <li>• Min: 2 reporting 24-months w/activity in last 12- months or 3 reporting 12-months w/recent activity.</li> <li>• If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived</li> </ul>



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Document Age	<ul style="list-style-type: none"> <li>90-days as of the note date</li> </ul>
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## Non-QHEM+ & Non-QHEM Program Requirements

Alimony & child support	<ul style="list-style-type: none"> <li>Must be included in the DTI.</li> </ul>
Installment Debt	<ul style="list-style-type: none"> <li>Installment loans must be included in the DTI.</li> <li>Installment debt with less than 10 months' worth of payments remaining may be excluded, provided there are assets to make the remaining payments.</li> <li>Borrower may pay down the debt to less than the sum of 10 months' worth of payments.             <ul style="list-style-type: none"> <li>The assets used must be sourced.</li> </ul> </li> <li>Loans secured by financial assets (margin loan, 401(K) loan, etc.) do not need to be included in the debt service provided the asset balance exceeds the loan balance.</li> </ul>
Appraisals	<ul style="list-style-type: none"> <li>Loan amounts ≤ \$2MM, one appraisal required</li> <li>Loan amounts &gt; \$2MM, two appraisals required</li> <li>In instances where one appraisal is required, said appraisal must have a CU score less than or equal to 2.5.</li> <li>If the CU score exceeds 2.5 or is unavailable, a CDA with a variance less than 10% is required.</li> <li>Loan amounts above \$1.5MM and up to \$2MM may not utilize the CU score in lieu of obtaining a CDA.</li> </ul> <p>Purchases</p> <ul style="list-style-type: none"> <li>Use the lesser of purchase price or appraised value</li> </ul> <p>Refinances</p> <ul style="list-style-type: none"> <li>If owned less than 12 months             <ul style="list-style-type: none"> <li>Use the lesser of the purchase price or appraised value</li> <li>Exception                 <ul style="list-style-type: none"> <li>Current value must be supported by a CDA with a variance ≤ 10%</li> <li>Properties in Geographical Restriction Area 2 are not eligible for the exception</li> </ul> </li> </ul> </li> </ul>
Reserves	<ul style="list-style-type: none"> <li>DTI &gt;50 and increased residual income requirement not met:             <ul style="list-style-type: none"> <li>additional 6 months PITIA</li> <li></li> </ul> </li> </ul>
Title & Vesting	<ul style="list-style-type: none"> <li>Individual names as joint tenants, community property, or tenants in common</li> <li>Living trusts meeting FNMA's requirements</li> <li>Blind Trusts-see Underwriting Guidelines for requirements</li> <li>Limited Liability Corporations-see Underwriting Guidelines for requirements</li> <li>Partnerships/Corporations-see Underwriting Guidelines</li> </ul>
Arm Terms	<ul style="list-style-type: none"> <li>Margin = 5.00%</li> <li>Index = 30 Day Average of SOFR</li> <li>Caps = 5/1/5</li> <li>Floor Rate = Note Rate</li> <li>Adjustment Period = 6 Months</li> </ul>
Interest Only	<ul style="list-style-type: none"> <li>Interest Only features are allowed on ARMs and FRMs</li> <li>The IO period is 10 years.</li> <li>Standard guidelines apply.</li> <li>40-year term: max 80 LTV</li> </ul>
Qualifying Payment	<p>To determine the P&amp;I component of the Qualifying Payment, utilize the below (except as otherwise specified):</p> <ul style="list-style-type: none"> <li>Fixed Rate:             <ul style="list-style-type: none"> <li>Utilize the start rate over the amortizing term</li> </ul> </li> <li>Amortizing ARM:             <ul style="list-style-type: none"> <li>Utilize the greater of the start rate or the index plus margin, amortized over full term of the loan</li> </ul> </li> <li>FRM/ARM with IO Feature:             <ul style="list-style-type: none"> <li>Utilize the greater of the start rate or the index plus margin, amortized over 20 years</li> </ul> </li> </ul>
Pre-Payment Penalties	<ul style="list-style-type: none"> <li>Prepayment penalties may be placed on investment properties for a period of at least one year in an amount equal to two percent of the original principal balance             <ul style="list-style-type: none"> <li>See Underwriting Guidelines for requirements.</li> </ul> </li> </ul>



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	<ul style="list-style-type: none"> <li>Price implications apply for prepayment penalty terms less than three years, including no prepayment penalty.</li> </ul>
Minimum Loan Amount	<ul style="list-style-type: none"> <li>\$100,000</li> </ul>
Rural Properties	<ul style="list-style-type: none"> <li>Primary and 2<sup>nd</sup> home only</li> <li>10 acres maximum</li> <li>No ranches, ag or farm use</li> <li>Max LTV of 80%</li> </ul>
Acreage	<ul style="list-style-type: none"> <li>Maximum 20 Acres</li> </ul>
<b>Eligibility Requirements</b>	
Borrower Eligibility	<ul style="list-style-type: none"> <li>US Citizen</li> <li>Permanent Resident Alien</li> <li>Non-Permanent Resident Alien with the following visas: E, G, H, L, O, P, and TN</li> <li>First time home buyer-see Housing Payment History guideline below</li> <li>Non-Occupant Co-Borrowers-see Underwriting Guidelines</li> </ul>
Occupancy	<ul style="list-style-type: none"> <li>Primary</li> <li>Second Home</li> <li>Investment Properties</li> </ul>
Property Types	<ul style="list-style-type: none"> <li>1-4 unit attached and detached properties</li> <li>Warrantable Condos</li> <li>Non-Warrantable Condos</li> <li>Condotels</li> <li>PUDs</li> <li>Mixed use properties that comply with FNMA's guidelines-see Underwriting Guidelines</li> </ul>
Condotels	<ul style="list-style-type: none"> <li>Maximum LTV/CLTV               <ul style="list-style-type: none"> <li>Purchase: 75%</li> <li>R/T and Cash-Out: 65%</li> </ul> </li> <li>Maximum Loan Amount: \$1.5 million</li> <li>Minimum Loan Balance: \$150,000</li> <li>Minimum square footage: 500</li> </ul>
Eligible Transactions	<p>Purchase, including non-arm's length transactions-</p> <ul style="list-style-type: none"> <li>See Underwriting Guidelines</li> </ul> <p>Rate and Term Refinance</p> <ul style="list-style-type: none"> <li>No title seasoning required</li> <li>Payoff of first and second,           <ul style="list-style-type: none"> <li>The second must be seasoned &gt;6 months with no draw or used to purchase the subject</li> </ul> </li> <li>Recoup of funds expended to improve the subject property.           <ul style="list-style-type: none"> <li>Improvements must have been completed within the last 6 months preceding the application date, funds must have been Borrower's own.</li> <li>Cash out amount not to exceed documented improvement costs</li> </ul> </li> <li>Buyout accompanied by an executed buyout agreement</li> <li>Gifted funds are not deemed to be Borrower's own funds</li> </ul> <p>Cash-Out Refinance</p> <ul style="list-style-type: none"> <li>A refinance that does not meet the definition of a rate/term transaction is considered cash-out.</li> <li>A mortgage secured by a property currently owned free and clear is considered cash-out.</li> <li>The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.</li> <li>A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.</li> <li>For properties owned 12 months or longer, the LTV/CLV is based upon the appraised value.</li> <li>Properties owned for more than 6 months but less than 12 months, may use new appraised value based on the LTV restrictions below:           <ul style="list-style-type: none"> <li>Owner Occupied – 75% LTV/CLTV</li> <li>Second Home – 70% LTV/CLTV</li> </ul> </li> <li>Investment Properties – 70% LTV/CLTV</li> <li>Cash-out seasoning of six (6) months or less is allowed with the following restriction:           <ul style="list-style-type: none"> <li>The Seller has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.</li> </ul> </li> </ul>



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	<ul style="list-style-type: none"> <li>○ Delayed Financing           <ul style="list-style-type: none"> <li>▪ When the subject property was purchased for cash within the 6 months preceding the application date, funds may be recouped up to the Borrower's documented contribution</li> </ul> </li> </ul>
<b>Credit Requirements</b>	
Minimum Tradelines	<ul style="list-style-type: none"> <li>• If the borrower has 3 FICO scores, the trade line requirement is waived</li> <li>• Minimum of 3 tradelines</li> <li>• Must have a 24-month credit history</li> <li>• One tradeline must have been active in the last 6 months           <ul style="list-style-type: none"> <li>○ May also be used for the 24-month history</li> </ul> </li> <li>• Tradeline do not have to be open</li> <li>• If the spouse is the only co-borrower, the primary borrower need only meet the tradeline requirement           <ul style="list-style-type: none"> <li>○ Only one borrower is required to meet this guideline</li> </ul> </li> <li>• See Underwriting Guidelines for more details and alternatives.</li> </ul>
Credit Score	<ul style="list-style-type: none"> <li>• 600 minimum FICO score</li> <li>• Use the lowest middle score for pricing and guideline purposes.</li> <li>• If there is a primary borrower, use their FICO score           <ul style="list-style-type: none"> <li>○ A borrower that provides <math>\geq 75\%</math> of the qualifying assets are considered the primary borrower</li> </ul> </li> </ul>
First Time Homebuyer	<p>First-time Homebuyer</p> <ul style="list-style-type: none"> <li>• Must document a 12-month history during the last 36 months</li> <li>• Must be 0x30</li> <li>• Living rent free or no housing history           <ul style="list-style-type: none"> <li>○ 75% max LTV</li> <li>○ 10% own funds contribution</li> <li>○ Primary and second home only</li> </ul> </li> </ul>
Derogatory Credit Events	<p>Significant Events</p> <ul style="list-style-type: none"> <li>• Bankruptcy, Foreclosure, Short Sale &amp; Short Pay, Modification, Dee-in-lieu, Pre-Foreclosure Events (NOD &amp; Lis Pendens)           <ul style="list-style-type: none"> <li>○ See matrix above for seasoning</li> </ul> </li> <li>• Judgment / Tax Lien: Must meet one of the following:           <ul style="list-style-type: none"> <li>○ Paid off prior to or at closing, or</li> <li>○ Show 3 month satisfactory payment history, include payment in DTI, subordinate if recorded</li> </ul> </li> <li>• Collection:           <ul style="list-style-type: none"> <li>○ May be excluded if individually less than \$250 or in aggregate less than \$1,000. If greater, must be paid off prior to or at closing.</li> <li>○ Medical collections are excluded from this requirement regardless of amount.</li> </ul> </li> <li>• Charge-Offs:           <ul style="list-style-type: none"> <li>○ Not required to be paid off</li> </ul> </li> </ul>
<b>Assets</b>	
Asset Accounts	<ul style="list-style-type: none"> <li>• Use 100% of cash and cash equivalents</li> <li>• Use 80% of face value for non-retirement asset accounts</li> <li>• Use 70% of retirement assets if Borrower is under 59.5, 80% if over</li> <li>• If the Borrower is liquidating funds from non-retirement sources, document liquidation and end balance</li> <li>• If the Borrower is liquidating from retirement accounts, document the liquidation and end balance</li> <li>• 1031 exchanges eligible for investment properties           <ul style="list-style-type: none"> <li>○ see Underwriting Guidelines</li> </ul> </li> <li>• Business funds may be used for down payment, closing costs and reserves.           <ul style="list-style-type: none"> <li>○ The amount of funds that may be utilized is based on the Borrower's percentage of ownership.</li> <li>○ Borrower(s) must provide either:               <ul style="list-style-type: none"> <li>▪ A letter from Borrower's CPA, EA, or licensed tax preparer stating that the Borrower(s) may access the business funds and that the withdrawal will have no adverse impact; or</li> <li>▪ A letter from the Borrower(s) stating that they may access the business funds and Cash Flow Analysis to document that the withdrawal will have no adverse impact-see Underwriting Guidelines</li> </ul> </li> </ul> </li> </ul>
Gift Funds	<ul style="list-style-type: none"> <li>• For Owner-occupied properties a 5% down payment has been made by the borrower from their own funds.           <ul style="list-style-type: none"> <li>○ 100% Gift Funds are allowed for Full Doc or 24-month Bank Statement loans only, with a maximum LTV of 75%.</li> <li>○ Borrower(s) must meet both reserve and residual income requirements.</li> </ul> </li> <li>• For Investment properties, a minimum of 10% of the down payment must be made by the borrower from their own funds.</li> <li>• Gifts of Equity are allowed for Owner Occupied properties only</li> </ul>



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	<ul style="list-style-type: none"> <li>• Gift funds may not be used to meet the reserve requirements</li> </ul>
<b>Income Requirements</b>	
<b>Full Doc</b>	
Wage Earner	<p><b>Documentation Requirements</b></p> <ul style="list-style-type: none"> <li>• Provide the last two years' W-2's</li> <li>• The most recent 30 consecutive days of paystubs including year to date income with the most recent one dated within 60 calendar days of the note date.</li> </ul> <p><b>Qualification:</b></p> <ul style="list-style-type: none"> <li>• If Applicant receives bonus, commission, or overtime, obtain a written VOE to determine a history and continuance. <ul style="list-style-type: none"> <li>○ Generally, a two-year history is required</li> <li>○ 1-2 years can be used on a case-by-case basis with positive factors to offset and a reasonable expectation of continuance.</li> </ul> </li> <li>• HEM reserves right to request tax returns in its sole discretion.</li> <li>• Restricted stock units: <ul style="list-style-type: none"> <li>○ Restricted stock units may be used as qualifying income.</li> <li>○ Applicant must have a two-year history of receipt and a three-year continuance on vesting.</li> </ul> </li> <li>• Stock options: <ul style="list-style-type: none"> <li>○ Stock options may be used as qualifying income.</li> <li>○ Applicant must have a two-year history of receipt and exercise.</li> </ul> </li> </ul>
Self Employed	<ul style="list-style-type: none"> <li>• Applicants must generally be self-employed for 2 years; however, 1-2 years is acceptable with 2 years previous employment in same line of work and no gaps.</li> <li>• Provide the most recent one or two years' personal and/or business federal tax returns as applicable. <ul style="list-style-type: none"> <li>○ If providing two years of income documents, take 24-month average of income if increasing, 12-month average if decreasing. If decreasing, additional documentation may be required.</li> <li>○ A year end and/or year to date profit and loss statement and balance sheet dated within 60 calendar days of funding may be required.</li> <li>○ See Underwriting Guidelines for additional information.</li> </ul> </li> <li>• Verification of current business revenues and operations required prior to closing, to be verified with the following: <ul style="list-style-type: none"> <li>○ Most recent two (2) business bank statements prior to application supporting the profit and loss statement provided</li> <li>○ Most recent one (1) business bank statement prior to funding supporting the profit and loss statement</li> </ul> </li> </ul>
Other Income	<p><b>Asset Distribution</b></p> <ul style="list-style-type: none"> <li>• Applicants may supplement income disclosed via traditional income sources by annuitizing their assets.</li> <li>• They may set up a monthly distribution and document receipt of at least one monthly distribution prior to closing.</li> <li>• The distribution must have at least 7 years of continuance based on the effective value of the asset as of the distribution commencement.</li> <li>• Verify current balance within 60 days of the note date.</li> <li>• Retirement accounts are ineligible if Applicant is under 59.5 <ul style="list-style-type: none"> <li>○ See Underwriting Guidelines</li> </ul> </li> </ul> <p><b>Passive Asset Utilization</b></p> <ul style="list-style-type: none"> <li>• Applicants may supplement income disclosed via traditional sources by depleting assets available over a 10-year term with no rate of return imputed.</li> <li>• All assets necessary to complete the transaction, including post-closing reserves, must be deducted in order to complete the calculation.</li> <li>• Verify current balance with the most recent full monthly statement available as of the note date. Standard asset haircuts are utilized <ul style="list-style-type: none"> <li>○ See Asset Accounts.</li> </ul> </li> </ul> <p><b>Other Sources</b></p> <ul style="list-style-type: none"> <li>• Document most recent 1-2 years receipt on tax returns and supporting tax documentation, current receipt, and expectation of at least three years' continuance</li> </ul>
Rental Income	<ul style="list-style-type: none"> <li>• <b>Method 1   Tax Returns</b> <ul style="list-style-type: none"> <li>○ Utilize the net figure on schedule E page 1 of most recent year's tax return adding back depreciation, amortization, and interest.</li> <li>○ Subtract the principal and interest component of the mortgage payment.</li> <li>○ Current insurance, taxes, and homeowner's association dues do not need to be documented.</li> <li>○ Document the unit in question is rented with most recent month's rent check.</li> </ul> </li> <li>• <b>Method 2   Lease</b> <ul style="list-style-type: none"> <li>○ Use 75% of current lease less documented PITI plus HOA dues and/or common charges.</li> <li>○ If lease is materially greater than income listed on tax return(s),</li> <li>○ Applicant to provide supporting explanation/documentation.</li> <li>○ Document the unit in question is rented with most recent month's rent check.</li> <li>○ Rental income from a vacant property may only be used on the subject property on a purchase transaction.</li> </ul> </li> </ul>



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Alternative Documentation	
ALT DOC - Bank Statements	
Self Employed	<ul style="list-style-type: none"> <li>Applicants must have been self-employed for at least two years.               <ul style="list-style-type: none"> <li>A CPA, EA, or licensed tax preparer letter or equivalent document verifying self-employment must be provided in all cases.</li> <li>At underwriter's discretion, current business existence and operations may be re-verified prior to closing and updated bank statements may be required.</li> </ul> </li> </ul>
Income Documentation	<p><b>Personal Bank Statements</b></p> <ul style="list-style-type: none"> <li>Provide the most recent 12 or 24 months of personal bank statements.</li> <li>Evaluate deposits to verify that they are part of Applicant's income stream.</li> <li>The applicant must own at least 20% of the business verified by a CPA letter, Tax Preparer letter, operating agreement, or equivalent</li> <li>Any that are abnormal to Applicants typical deposits must be sourced/documented to be considered as part of income.</li> <li>Total all eligible deposits and divide by number of statements provided to determine monthly income.</li> <li>Provide the most recent 3 months of business statements to verify that income is coming from Applicant's business.</li> <li>Transfers from only one account are allowed.</li> <li>Transfers between personal accounts not considered income.</li> <li>An applicant who provides personal statements but does not meet the above outlined criteria will have their statements treated as business statements.</li> </ul> <p><b>Business Bank Statements</b></p> <ul style="list-style-type: none"> <li>Provide the most recent 12 or 24 months of business bank statements.</li> <li>Multiple accounts may be used; however, the same calculation method must be applied across all accounts provided.</li> <li>The Applicant(s) combined must own 25% or more of the business to utilize business bank statements.</li> </ul> <p><b>1 Page Bank Statements (see ALT DOC – 1 Page Bank Statement section for further details)</b></p> <ul style="list-style-type: none"> <li>Provide page 1 of a Business Bank Statement for the company reflected on the P&amp;L</li> <li>Provide a 12- or 24-month Profit &amp; Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), or a CTEC registered tax preparer.</li> <li>The credit file must contain documentation showing the one of the following           <ul style="list-style-type: none"> <li>CPA is currently licensed in their state</li> <li>the EA is currently active (Screen shot of the IRS web site)</li> <li>the CTEC is active (Screen shot from CTEC web site).</li> </ul> </li> <li>The borrower must own a minimum of 25% of the business</li> <li>The P&amp;L must be dated within 30-days of the loan application</li> <li>The preparer must attest they have prepared the borrower's most recent tax return and provide the borrower's ownership percentage</li> <li>Qualifying income is the net income from the P&amp;L divided by the period covered (24 or 12-months) multiplied by the borrower's ownership percentage.</li> </ul>
Income Calculations Methods	<p><b>Method 1   Uniform Expense Ratio</b></p> <ul style="list-style-type: none"> <li>Multiply eligible deposits received by a 50% expense ratio.</li> <li>Multiply result by Applicant's ownership percentage and divide by number of statements provided.           <ul style="list-style-type: none"> <li>The expense ratio must be reasonable to Applicant's line of work and if the applicant qualifies; no further information is required.</li> </ul> </li> <li>Any abnormal deposits will need to be sourced and documented.</li> </ul> <p><b>Method 2   Profit and Loss Statement</b></p> <ul style="list-style-type: none"> <li>Provide a CPA, EA, or licensed tax preparer prepared profit and loss statement covering the period of bank statements provided.</li> <li>As long as business statements support eligible deposits of at least 75% of the gross receipts listed on the P&amp;L, use the net income on the P&amp;L for qualifying based on the Applicant's pro-rata share of ownership.</li> <li>Any abnormal deposits will need to be sourced and documented. Income utilized to qualify must be reasonable based on the Applicant's line of work.</li> </ul> <p><b>Method 3   CPA Letter for Expense Ratio</b></p> <ul style="list-style-type: none"> <li>Provide a letter from Applicant's CPA, EA, or licensed tax preparer stating the business' expense ratio based on the most recent year's tax return.           <ul style="list-style-type: none"> <li>The letter may not include any exculpatory language.</li> </ul> </li> <li>Multiply the expense ratio by the business' total deposits over the period shown on bank statements.</li> <li>Deduct that figure from the total deposits.</li> <li>Multiply net deposits by the Applicant's pro-rata ownership percentage and divide by the number of statements provided.</li> <li>Income utilized to qualify must be reasonable based on the Applicant's line of work.</li> </ul> <p><b>All Methods:</b></p> <ul style="list-style-type: none"> <li>Comingled accounts will be treated as business accounts for purposes of determining income.</li> <li>NSFs:</li> </ul>





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	<ul style="list-style-type: none"> <li>• NSF's are counted on an "instance" basis.</li> <li>• A max of 3 instances is allowed if 12 months of statements are provided</li> <li>• A max of 6 instances is allowed if 24 months of statements are provided. See Underwriting Guidelines for additional detail.</li> </ul> <p><b>Income trend:</b></p> <ul style="list-style-type: none"> <li>• Bank statements should show a stable or increasing trend.</li> <li>• If the trend is declining and/or irregular, additional documentation may be required at underwriter's discretion.</li> </ul>
Co Borrower	<ul style="list-style-type: none"> <li>• Full documentation from a Co-Applicant who is not self-employed may be used to supplement bank statement.</li> <li>• See full documentation guidelines for additional information on acceptable sources.</li> <li>• Taxable income is counted on a "gross" amount regardless of the net deposit shown on bank statements.</li> </ul>
Rental Income	<ul style="list-style-type: none"> <li>• Utilize 75% of the current lease income less PITIA on a net basis.</li> <li>• Do not include rental deposits as part of the bank statement income stream.</li> <li>• Document receipt of rental income.</li> <li>• Rental income may not be used to qualify on a vacant unit, except on the subject property on a purchase transaction.</li> </ul>
Other Income	<ul style="list-style-type: none"> <li>• Borrowers who have supplemental income sources may utilize them to qualify provided the history of receipt and continuance requirements under the full documentation guidelines are met.</li> <li>• The borrower utilizing 1099 income must still earn the majority of their income from activity calculated via 1099s and the applicable expense ratio.</li> <li>• The acceptable supplemental income sources are limited to: <ul style="list-style-type: none"> <li>○ social security</li> <li>○ pension</li> <li>○ alimony</li> <li>○ child support</li> <li>○ asset distribution/utilization</li> <li>○ second job income.</li> </ul> </li> </ul>
<b>ALT DOC - GIG Qualifier</b>	
Product Eligibility	<ul style="list-style-type: none"> <li>• The borrower must be compensated in the form of commission or as an independent contractor.</li> <li>• 1099s need to cover a complete calendar year</li> </ul>
Documentation Requirements	<p>The following documents are required for the file:</p> <ul style="list-style-type: none"> <li>• Most recent one or two years of 1099(s)</li> <li>• Documentation of year-to-date income, within 60 days of the note date</li> <li>• A CPA, EA, or licensed tax preparer completed profit and loss statement or expense ratio letter (as applicable)</li> <li>• 1099 transcripts</li> </ul> <p>At the underwriter's discretion, verification of current business revenues and/or operations may be required prior to closing</p>
Income Calculations Options	<ul style="list-style-type: none"> <li>• Provide the most recent one or two years of 1099s.</li> <li>• An expense ratio must be developed using one of the two below Options. <ul style="list-style-type: none"> <li>○ If gross receipts are stable or increasing year over year, use a 24-month average of net income.</li> <li>○ If gross receipts are declining, a 12-month average shall be utilized.</li> </ul> </li> </ul> <p><b>Option 1   Uniform Expense Ratio</b></p> <ul style="list-style-type: none"> <li>• Apply a 10% expense factor to all eligible gross receipts.</li> <li>• The expense ratio must be reasonable to the borrower's line of work and the borrower qualifies; no further information is required.</li> </ul> <p><b>Option 2   Profit and Loss Statement</b></p> <ul style="list-style-type: none"> <li>• Provide a CPA, EA, or licensed tax preparer prepared profit and loss statement covering the most recent two calendar years, depending on the 1099s provided.</li> <li>• The gross receipts on the 1099s must support at least 90% of the gross receipts listed on the P&amp;L</li> <li>• Use the net income on the P&amp;L for qualifying.</li> </ul> <p><b>Option 3   CPA Letter for Expense Ratio</b></p> <ul style="list-style-type: none"> <li>• Provide a letter from Borrower's CPA, EA, or licensed tax preparer stating the borrower's expense ratio based on the most recent year's tax return.</li> <li>• The letter may not include any exculpatory language.</li> <li>• Multiply the expense ratio by the gross receipts shown on the 1099s.</li> <li>• Deduct that figure from the gross receipts and average the results over the number of months of 1099s provided.</li> </ul> <p>Income trend: 1099 gross receipts should show a stable or increasing trend. If the trend is declining and/or irregular, additional documentation may be required at underwriter's discretion.</p>
Co-Borrower	<ul style="list-style-type: none"> <li>• Full documentation from a Co-Borrower may be used in addition to the 1099 income.</li> </ul>



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	<ul style="list-style-type: none"> <li>See full documentation guidelines for additional information on acceptable sources.</li> </ul>
Rental Income	<ul style="list-style-type: none"> <li>Utilize 75% of the current lease income less PITIA on a net basis.</li> <li>Do not include rental deposits as part of the bank statement income stream.</li> <li>Document receipt of rental income.</li> <li>Rental income may not be used to qualify on a vacant unit, except on the subject property on a purchase transaction.</li> </ul>
Other Income	<ul style="list-style-type: none"> <li>Borrowers who have supplemental income sources may utilize them to qualify provided the history of receipt and continuance requirements under the full documentation guidelines are met.</li> <li>The borrower utilizing 1099 income must still earn the majority of their income from activity calculated via 1099s and the applicable expense ratio.</li> <li>The acceptable supplemental income sources are limited to:             <ul style="list-style-type: none"> <li>social security</li> <li>pension</li> <li>alimony</li> <li>child support</li> <li>asset distribution/utilization</li> <li>second job income.</li> </ul> </li> </ul>
<b>ALT DOC - WVOE Only</b>	
Eligibility	<ul style="list-style-type: none"> <li>Two-year history with same employer is required.</li> <li>Minimum credit score: 600</li> <li>Primary Residence Only</li> <li>FTHB maximum LTV 70%, no gift funds allowed.</li> <li>Borrower(s) employed by family members or related individuals are not eligible.</li> <li>Only eligible source of income is limited to Wage/Salary.</li> </ul>
Documentation Requirements	<ul style="list-style-type: none"> <li>24-month 0x30 housing history required.</li> <li>Paystubs, Tax Returns, 4506-C, or W-2's not required.</li> <li>Two (2) Months Personal Bank Statements required to support the WVOE.</li> <li>The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.</li> </ul>
<b>ALT DOC - Asset Qualifier</b>	
Documentation Requirements	<ul style="list-style-type: none"> <li>All individuals listed on the asset account(s) must be on the Note and Mortgage.</li> <li>Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD;</li> <li>Assets must be seasoned 120-days;</li> <li>Income other than Asset Utilization must meet Non-QHEM requirements</li> </ul>
Income Calculation Options	<p>Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:</p> <ul style="list-style-type: none"> <li>100% of Checking, Savings, and Money Market Accounts;</li> <li>70% of Stocks, Bonds, and Mutual Funds;</li> <li>70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 1/2);</li> <li>60% of Retirement Assets: Eligible if the borrower is not of retirement age.</li> </ul> <p><b>Debt Ratio Calculation:</b></p> <ul style="list-style-type: none"> <li>Option 1 – 60 months             <ul style="list-style-type: none"> <li>Minimum Eligible Assets required are the lessor of \$1,000,000 or 150% of the loan amount</li> <li>Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 60.</li> <li>Maximum DTI 43%.</li> </ul> </li> <li>Option 2 – 84 months             <ul style="list-style-type: none"> <li>No Minimum Eligible Assets amount is required.</li> <li>Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84.</li> <li>Maximum DTI 43%.</li> </ul> </li> </ul>
Rental Income	<ul style="list-style-type: none"> <li>Rental properties are calculated based on 75% of lease less PITIA to determine impact on debt service.             <ul style="list-style-type: none"> <li>Net rent can never exceed \$0 for determining impact.                 <ul style="list-style-type: none"> <li>For example, a property with a lease of \$1,600 and PITIA of \$1,500 would have a \$300 per month added to debt service (<math>\\$1,600 * 75\% - \\$1,500 = \\$300</math>).</li> </ul> </li> </ul> </li> </ul>
<b>ALT DOC – 1 Page Bank Statement</b>	
Documentation Requirements	<ul style="list-style-type: none"> <li>Page 1 of a Business Bank Statement for the company reflected on the P&amp;L</li> <li>24 or 12 month Profit &amp; Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), or a CTEC registered tax preparer.             <ul style="list-style-type: none"> <li>The credit file must contain documentation showing the CPA is currently licensed in their state, the EA is currently active (Screen shot of the IRS web site), or the CTEC is active</li> </ul> </li> </ul>



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	<p>(Screen shot from CTEC web site).</p> <ul style="list-style-type: none"><li>○ Minimum 25% business ownership required</li><li>○ Dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and</li><li>○ The preparer must attest they have prepared the borrower's most recent tax return and provide the borrower's ownership percentage</li></ul>
Income Calculation	<ul style="list-style-type: none"><li>● Qualifying income is the net income from the P&amp;L divided by the time period covered (24 or 12-months) multiplied by the borrower's ownership percentage.</li><li>● Expenses on the P&amp;L must be reasonable for the industry, HEM reserves the right to require additional information</li></ul>
Co Borrower	<ul style="list-style-type: none"><li>● Full documentation from a Co-Applicant who is not self-employed may be used to supplement bank statement.</li><li>● See full documentation guidelines for additional information on acceptable sources.</li><li>● Taxable income is counted on a "gross" amount regardless of the net deposit shown on bank statements.</li></ul>
Rental Income	<ul style="list-style-type: none"><li>● Utilize 75% of the current lease income less PITIA on a net basis.</li><li>● Do not include rental deposits as part of the bank statement income stream.</li><li>● Document receipt of rental income.</li><li>● Rental income may not be used to qualify on a vacant unit, except on the subject property on a purchase transaction.</li></ul>
Other Income	<ul style="list-style-type: none"><li>● Borrowers who have supplemental income sources may utilize them to qualify provided the history of receipt and continuance requirements under the full documentation guidelines are met.</li><li>● The borrower utilizing 1099 income must still earn the majority of their income from activity calculated via 1099s and the applicable expense ratio.</li><li>● The acceptable supplemental income sources are limited to:<ul style="list-style-type: none"><li>○ social security</li><li>○ pension</li><li>○ alimony</li><li>○ child support</li><li>○ asset distribution/utilization</li></ul></li><li>● second job income.</li></ul>