

## PORTFOLIO 7/1 ARM (FULLY AMORTIZED)

### P&L / VOE INCOME OPTION – PRIME7/1

#### PRIMARY RESIDENCE, 2<sup>ND</sup> HOME & INVESTMENT PROPERTIES

PROPERTY TYPE	Max Loan Amt	MAX LTV	MAX CLTV	MIN FICO
1 UNIT SFR & PUD	Up to \$1MM	70%	70%	680
	>\$1MM - \$1.5MM	65%	65%	700
	>\$1.5MM - \$2.5MM	60%	60%	720
CONDO	Up to \$1MM	65%	65%	680
	>\$1MM - \$1.5MM	60%	60%	700
2-4 UNITS	Up to \$1.5MM	60%	60%	700

**Minimum loan amount = \$150,000.00**

#### CASH-OUT REFINANCE

60% MAX LTV  
 Maximum cash-out amount - \$2,500,000  
 6 month seasoning required  
*(note: See property type for loan amount limits & min fico requirement)*

### PRIME EZ-Q (ASSET QUALIFYING INCOME) – PEQ7/1

#### PRIMARY RESIDENCE, 2<sup>ND</sup> HOME & INVESTMENT PROPERTIES

NEW!

PROPERTY TYPE	Max Loan Amt	MAX LTV	MAX CLTV	MIN FICO
1 UNIT SFR & PUD	Up to \$1MM	60%	60%	700
	>\$1MM - \$1.5MM	55%	55%	720
	>\$1.5MM - \$2.5MM	50%	50%	720
CONDO	Up to \$750K	55%	55%	700
2-4 UNITS	Up to \$1.5MM	50%	50%	720

**Minimum loan amount = \$150,000.00**

**Cash Out not available for Asset Based Income Option**

*IMPOUND OPTION – not available*



PROGRAM DETAILS	
<p><b>Self-Employed Business Restrictions</b></p>	<p>All businesses must have a physical commercial location. The following business types are ineligible:</p> <ul style="list-style-type: none"> <li>• Home Based-businesses</li> <li>• Real Estate Investors</li> <li>• Real Estate Agents</li> <li>• Loan Officers</li> <li>• Property Flippers</li> <li>• Landlords</li> </ul>
<p><b>Self-Employed Confirmation of Employment Requirements</b></p>	<ul style="list-style-type: none"> <li>• Verification of the existence of the borrower's business from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau.</li> <li>• Verify the listing and address for the borrower's business using telephone book, the internet or directory assistance.</li> </ul>
<p><b>PRIME 7/1 P&amp;L Income Option Self-employed Income Documentation</b></p>	<p>Profit &amp; Loss Statement and CPA Letter must be no more than <b>90 days old</b> on the date of loan closing. When consecutive income documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If income documents are older than allowed, updated documents must be obtained.</p> <ul style="list-style-type: none"> <li>• For application received on or before 6/30: YTD and one full year of interim Profit &amp; Loss Statement prepared and signed by CPA.</li> <li>• For application received on or after 7/1: YTD Profit &amp; Loss Statement prepared and signed by CPA.</li> <li>• Business license for the past 2 years (<b>No exceptions</b>).</li> <li>• CPA letter verifying the following:             <ul style="list-style-type: none"> <li>○ Indicate business name and borrower's name</li> <li>○ 2 years business at the same location.</li> <li>○ Type of business structure (sole ownership, corporation, partnership, etc.)</li> <li>○ Percentage of borrower's ownership interest (for corporations and partnerships)</li> <li>○ CPA has prepared the Profit and Loss statement provided in file</li> <li>○ CPA has prepared the most recent 2 years business tax returns filing</li> <li>○ CPA license number</li> </ul> </li> </ul>



<p><b>PRIME 7/1 WVOE Income Option Salary or Wage-Earning Employees Income Documentation</b></p>	<p><b>Salary or Wage-Earning Employees</b> Salaried borrowers receive a consistent wage or salary from an employer in return for a service rendered and have no ownership or less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. If hourly, the number of scheduled hours must be addressed. The income that is verified must be converted into a monthly dollar amount for use on the formal application (FNMA Form 1003). At the discretion of the underwriter, supplementary documentation of income may be requested.</p> <p>The probability of continued employment must be considered. Caution should be exercised in considering this item as negative comments from an employer could indicate a possible problem in the applicant's ability to repay the loan.</p> <p>All applicants must have two years of verified employment. If the applicant has not been on their present job for two years, verification of previous employment must be obtained to cover a two-year period.</p> <p><b>Documentation Requirements</b> A written verification of employment ("WVOE") form must contain the following information:</p> <ul style="list-style-type: none"> <li>• Dates of employment.</li> <li>• Position.</li> <li>• Prospect of continued employment, when available.</li> <li>• Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week.</li> <li>• Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.</li> </ul> <p>A written verification of employment form (FNMA Form 1005) must be used and it must be sent directly to the employer to the attention of the personnel department, accounting department, or any other personnel who has the authority to verify such information.</p> <p>Please note: Current employment must be reflected on the credit report. Loans with employment discrepancies will be reviewed on a case by case basis.</p>
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**PRIME EZ-Q  
Asset Qualifying Income  
Option**  
Documentation and  
General Points

**Self-Employed**

- CPA Letter verifying business ownership for at least 2 years **OR** 2 years' business license.
- Definitive Description of Business, Industry, and Borrower's Title listed on 1003.

**Salary/or Wage-Earning Employees**

- Verbal verification of employment / Current Employment (1003) must show on credit report.
  - VOE must contain the following:
    - Dates of Employment
    - Position
    - Prospect of continued employment, when available
- Credit Report **must** show current employer reflected on the 1003.

**Prime Asset Qualifying Calculation Method**

Further verification of the income will be documented through the assets reported (Purchase Loans) and/or payment history (Rate & Term) to meet ATR requirements.

Qualifying income will be based on the lower of the:

1. The income stated on the loan application; or
2. The aggregate (down payment and reserves)/ six (6).

Note: Only the borrower's verified portion of funds will be used to determine the qualifying income. Gift funds will not be included in the asset qualifying income.

**Examples based on 60% LTV**

**Example 1- Purchase with no gift funds**

\$1MM purchase price with no gift funds.

1003 income - \$25,000 monthly

Borrower's verified funds- \$400,000 down payment & \$41,000 in reserves.  
 $(\$400,000 + \$41,000) / \text{six (6)} = \$73,500 \text{ monthly}$

***The \$25,000 1003 income must be used in this instance since lower than the borrower's verified portion of assets.***

**Example 2-Purchase using \$200,000 gift funds**

\$1MM purchase price with \$200,000 gift funds.

1003 income - \$60,000 monthly

Borrower's verified funds- \$200,000 down payment & \$41,000 in reserves.  
 $(\$200,000 + \$41,000) / \text{six (6)} = \$40,166.66 \text{ monthly}$

***The \$40,166.66 based on the borrower's verified assets must be used in this instance since lower than the income listed on the 1003.***



<p><b>PRIME EZ-Q Asset Qualifying Income Option</b> Documentation and General Points <b>Continued</b></p>	<p><b><u>Example 3- Rate &amp; Term Refinance</u></b></p> <ul style="list-style-type: none"> <li>Income listed on 1003 will be used as qualifying income as long as borrower has 12 months P&amp;I reserves verified; and</li> <li>Borrower must have a 12 month mortgage history as evidenced through the credit report or VOM; or</li> <li>Borrower's with less than 12 month mortgage history must use borrower's verified assets divided by six (6) to support income stated on 1003.</li> </ul> <p><b><u>General Points</u></b></p> <ul style="list-style-type: none"> <li>Cash out transactions not permitted</li> <li>Reserves-12 months P&amp;I for all Asset Based Income loans regardless of LTV</li> <li>Max 60% CLTV</li> <li>Self-Employed borrowers require a CPA letter <b>or</b> business license to verify 24 months self-employed history</li> <li>Foreign Income and/or Employment is not acceptable</li> <li>No P&amp;L required for Prime EZ-Q</li> </ul>
<p>Overall Program General Points</p>	<ul style="list-style-type: none"> <li>Housing/Total Debt to Income (DTI) ratios to be equal or less than 38/43%.</li> <li>Condominiums must be warrantable by Fannie Mae</li> <li>Delayed financing is allowed if the original purchase transaction was arms-length transaction and source of funds for purchase transaction must be borrower's own funds.</li> <li>Gift fund is not allowed for reserves</li> <li><b>Maximum number of financed/owned properties: 8</b> <ul style="list-style-type: none"> <li>(including subject and commercial)</li> </ul> </li> <li>Business phone number must be verifiable via 411 or internet.</li> <li>Subject property cannot be listed for sale and listing must be withdrawn prior to the application date for R&amp;T and C/O.</li> <li>Loan Amount &gt; \$1.5MM requires investor approval</li> </ul>
<p>Credit Report</p>	<ul style="list-style-type: none"> <li>A tri-merge credit report is required for each borrower whose income is being relied upon for qualification.</li> <li>Credit report may not be more than 90 days old at the time of loan closing. If the credit report exceeds the 90-day limit, a new or updated credit report is required.</li> <li>If adverse items exist on the credit report, a letter of explanation is required.</li> </ul> <p><b>Notes:</b></p> <ul style="list-style-type: none"> <li>Rapid Rescores to improve FICO scores are not acceptable. <b>Worst-case scores and liabilities amounts will be used to qualify.</b></li> <li>All employment and addresses reported on credit must be consistent with the employment and addresses listed on the 1003.</li> <li>All address and employment discrepancies must be addressed.</li> <li>The presence of employment discrepancies may impact the use of the income for self-employed and wage earner borrowers under both income documentation options- P&amp;L/VOE and EZ-Q Asset Qualifying Option.</li> </ul>



Credit Scores	<p>Mega requires minimum credit score of 680 and will make price adjustments according to the credit score.</p> <ul style="list-style-type: none"> <li>At least two scores are required. <ul style="list-style-type: none"> <li>If there are two scores, the lower score must be used.</li> <li>If there are three scores, the middle score must be used.</li> </ul> </li> </ul> <p><b>If only one score is available, the borrower is not eligible.</b></p>	
Credit Standards	<b>Mortgage/Rent</b>	<p>Max. 1x30 in past 12 months (no exceptions)  Max. 2x30; 1x60 in the past 24 months.  Max. 4x30; 2x60 in the past 36 months.</p>
	<b>Trade Lines</b>	<p>3 trade lines seasoned for at least twelve (12) months  Max. 3x30 in past 12 months.  Max. 3x30; 1x60; 1x90 in the past 24 months.  Max. 4x30; 2x60; 1x90 in the past 36 months.</p>
	<b>Bankruptcy/SS&amp;DI L/ Foreclosure</b>	<p>3yrs/2yrs/5yrs  No multiple Bankruptcies/SS&amp;DI/ Foreclosures allowed per borrower</p>
	<b>Loan Modification</b>	<p>Must be seasoned for at least 2 years prior to loan application date.  Following documents must be provided. <ul style="list-style-type: none"> <li>Letter of explanation required from borrower</li> <li>Document to verify the loan modification date if not presented on credit report.</li> </ul> </p>
Credit Inquiries	All inquiries within 90 days of the application date must be addressed.	
Monthly Housing Expense	<p>Count PITI, MI premium, flood insurance premium if applicable, leasehold payment, HOA dues, subordinate financing payments. If borrower does not own a primary residence, but does own an investment property, a Verification of Rent (VOR) will be required to satisfy primary residence housing expense. <b><i>If spouse owns primary residence solely, verification of mortgage (VOM) will be required and payment will be included in DTI as monthly housing expense</i></b></p>	
Qualifying	<p>Qualifying Interest Rate: Full Amortization  The greater of start rate or fully-indexed rate.</p>	
Liabilities	<p><b><u>Alimony/Child Support</u></b>- Deduct from income if more than 10 payments remain. Copy of divorce decree is required.  <b><u>Business Loans</u></b>- May be excluded from the total debt if evidence showing payment by company for the past 6 months.  <b><u>Co-signer Obligations</u></b>- Not counted if verified that 6 months paid by other party. 6 months cancelled checks required.  <b><u>Installment Accounts</u></b>- Less than 10 months balance not included. Borrower may pay down or pay off an installment loan to exclude from the liability. Account must be paid down or paid off with the borrower's own funds prior to closing.  <b><u>Student Loans</u></b>- Must always be included even if deferred. If monthly payment after the deferred period cannot be verified through the student loan lender, use 2% of the outstanding balance.</p>	



Eligible Borrowers	<ul style="list-style-type: none"> <li>• US Citizens</li> <li>• Permanent resident with proper documentation (Green Card).</li> <li>• Non-Permanent resident with acceptable VISA.</li> </ul>
Ineligible Transactions/ Parameters	<ul style="list-style-type: none"> <li>• Properties located in SFHA flood zones- A, AE, AH, AO, A1-30, A-99, V, VA, VO, and V1-30.</li> <li>• Home based-business or businesses prescribed on Page 2 (Real Estate Investors/Agents/Realtors, Loan Officers, Property Flippers and Landlords)</li> <li>• Non-arm's length.</li> <li>• For sale by owner.</li> <li>• Power of attorney</li> <li>• At-Interest Transactions               <ul style="list-style-type: none"> <li>○ <i>An at-interest transaction involves persons who are not closely tied or related, but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Acceptable examples of at-interest transactions include builder also acting as realtor/broker, dual real estate agent (selling/listing agent), and realtor/broker selling own property. Unacceptable examples of at-interest transactions include realtor/broker acting as listing/selling agent as well as the mortgage loan originator, seller acting as the mortgage loan originator, borrower's family member acting as the mortgage loan originator and real estate broker at the same time. Transaction includes unacceptable at-interest characteristics are not permitted</i></li> </ul> </li> </ul>
Purchase Minimum Down Payment Contribution	<ul style="list-style-type: none"> <li>• Owner Occupied/2<sup>nd</sup> home: 0%</li> <li>• Investment(<math>\leq</math> 60% LTV): 50%</li> <li>• Investment(<math>\geq</math> 60% LTV): 100%</li> </ul>
Minimum Closing Cost Contribution	<p>The borrower must contribute 100% of the closing costs for all program and loan types.</p> <p>Note: Prime7/1 Owner Occupied and Second Home Refinance transactions do not require a borrower minimum closing cost contribution.</p>
Gift Funds	<ul style="list-style-type: none"> <li>• Interested Party Contributions (IPCs) not to exceed 3% of the sales price for primary and second homes, or 2% for non-owner occupied properties. IPCs may be used towards closing costs only, not for repair of down payment or reserves.</li> <li>• No minimum borrower contribution on Owner Occupied and Second Homes.</li> <li>• Gift is allowed up to 50% of down payment for Purchase Investment properties less than or equal to 60% LTV.</li> <li>• Gift fund is not allowed on:               <ul style="list-style-type: none"> <li>○ Investment transaction Purchases &gt; 60% LTV or Investment refinance transactions</li> <li>○ Reserves</li> </ul> </li> </ul>
Principal Reduction	<p><b>Not allowed</b> - Loan amount must either be reduced or qualified as a cash-out transaction.</p>
Eligible Properties	<ul style="list-style-type: none"> <li>• Single Family Residence</li> <li>• Two to Four unit Properties</li> <li>• Planned Unit Development</li> <li>• Condominium</li> </ul>



Solar Panels	For properties with solar panels, copy of purchase contract or lease agreement for solar panel must be reviewed to determine if there is any recurring monthly payment. Any monthly payment must be included in debt-to-income calculation. If solar panel contract is recorded as a lien against subject property, it cannot be in a first lien position. For purchase transaction, if borrower assumes the existing solar panel contact from the current owner/seller, assignment of lease or similar documents must be reviewed to determine the term and validity of transfer.
Loan Modifications	Must be seasoned for at least 2 years prior to loan application date. Following documents must be provided. <ul style="list-style-type: none"> <li>• Letter of explanation required from borrower</li> <li>• Document to verify the loan modification date if not presented on credit report.</li> </ul>
Insurance	<b>Hazard</b> – <i>must equal the lesser of the following</i> <ul style="list-style-type: none"> <li>• 100% of the insurable value of the improvement as established by the property insurer or</li> <li>• The unpaid principal balance of the loan amount, as long as it equals the minimum amount – 80% of the insurable value of improvements.</li> </ul> <b>Deductible-</b> The maximum allowable deductible for all property types is 5% of the face amount of the policy.
Flood Zone Restrictions	<b>Properties located in SFHA flood zones-</b> A, AE, AH, AO, A1-30, A-99, V, VA, VO, and V1-30 are ineligible.

## ASSETS/RESERVES

	Loan amount	Required Reserves (P&I)
<b>All Property Types</b>	LTV ≤ 60% & Loan Amt up to \$1MM	6 months in US Financial Institution
	LTV 60.01 - 70% & Loan Amt up to \$1MM	12 months in US Financial Institution
	Loan Amount \$1,000,001 to \$2,500,000	12 months in US Financial Institution
	<b>Prime EZ-Q Asset Based Income</b>	<b>12 months P&amp;I regardless of LTV</b>

Asset documents must be **no more than 90 days old** on the date of loan closing. When consecutive asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 90 days old on the loan closing date.

- Most recent 2 months bank statements (UW may require additional months).
- Stocks/Bonds/Mutual Funds: 100% maybe considered for reserves.
- Vested Retirement Account funds: may be considered for reserves, source of down payment and closing costs.
- Cash value of Life Insurance
- Business Funds: may be used up to 100% of current balance if borrower can demonstrate 100% ownership of the business.
- Gift funds or business funds cannot be used for reserves. Reserve must be borrower's own funds.





APPRAISAL GUIDELINES	
Loan amount up to \$1,000,000	One Full Appraisal
Loan amount from \$1,000,001 to \$2.5mm	One Full Appraisal and One Field Review
Eligible States	California only

