SPRING EQ UNDERWRITING GUIDELINES

EFFECTIVE: 8/24/2021

Contents

Underwriting/Credit Policy

Credit philosophy:

Spring EQ is committed to originating Quality Mortgage Loans with focus on both manufacturing and credit quality. Any information not contained herein should be referred to the Fannie Mae Selling guide for requirements.

Spring EQ's focus for credit quality includes leveraging direct data feeds and enhanced workflow automation which creates a more consistent decision process making process. Our commitment to this philosophy includes all information within the transaction to be true and accurate as well as making a reasonable, good faith evaluation of the Borrower's ability to repay. The likelihood of timely repayment is expected to be commensurate with the quality of the Mortgage Loan Program and the represented value of the Mortgaged Property is expected to accurately reflect its market value. The underlying chapters within are focused in detail on supporting Spring EQ's commitment to this philosophy. Areas of focus in validating the Borrower's ability to repay the Mortgage Loan include, but are not limited to:

- Current or reasonably expected income or assets (other than the value of the property that secures the Mortgage Loan) that the Borrower will rely on to repay the Mortgage Loan;
- Current employment status;
- Monthly mortgage payment;
- Qualified monthly payments on any Simultaneous Loans secured by the same property;
- Monthly payments for property taxes and insurance the Borrower is required to buy, and certain other costs related to the property such as Homeowners' Association fees or ground rent;
- Debts, alimony, and child-support obligations;
- Monthly debt-to-income ratio or residual income are calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income; and
- Credit history.

Eligibility

This section outlines Spring EQ's eligibility requirements. Generally, eligibility policies that vary from one Mortgage Loan Program to another are described in the Product Matrices and, in most cases, those program specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

LDP and SAM Lists

Spring EQ prohibits Mortgage Loans where any company or individuals who are material parties to the transaction are listed on HUD's Limited Denial of Participation list or the System for Award Management Excluded Party list. Both lists must be checked for all parties to the transaction. If any of the names appear on either list, the loan is not eligible.

Regardless of the reason for inclusion on the list, any Mortgage Loan is ineligible when a material party to the transaction is included on either list.

Mortgage Loan Application

The Mortgage Loan Application must be complete, including a full two-year history of employment and residency and all personal information for each Borrower (social security number, date of birth, address, and education.) All declaration questions must be marked indicating the method of taking the application: face-to face, by telephone, or by mail. The interviewer's name and employer must be completed in all cases, and all applications must be signed and dated by the Borrower(s).

The final application for closing must adhere to the requirements above, including the Borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all Borrowers. All debt incurred during the application process and through loan closing must be disclosed on the final application. See Undisclosed Liabilities chapter for more information.

All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the Borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented and included in the Mortgage Loan File.

Identity Verification

The identity must be confirmed for each Borrower whose credit is used for loan qualification. The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each Borrower. Acceptable forms of identification include:

- Valid state driver's license with photo;
- Work ID with photo;
- Military photo ID;
- Permanent Resident card with photo;
- Medicare card;
- Valid state non-driver's license with photo;
- Student photo ID;
- Military dependents photo ID;
- Department of Public Welfare photo ID; or
- US passport with photo.

Social Security Number Validation

Evidence of a valid social security number is required for all Borrowers. Acceptable documentation for a social security number includes, but is not limited to, a valid Social Security card, a current paystub, W-2, or tax transcripts. Any social security number discrepancies that are identified must be resolved.

Occupancy Types

The feasibility of a Borrower occupying the Mortgaged Property must be examined when the Borrower indicates the Mortgaged Property will be his or her primary residence. On refinance transactions, Originator must compare the current address reported on the Mortgage Loan Application to the addresses listed on the credit report. A full explanation is required for any red flags or inconsistencies noted in the last 12 months.

Eligible occupancy types are Primary Residences, 2nd homes and Investment properties. Please see product matrix for limitations on investment properties

Borrower Types

Any person signing an application for a Mortgage Loan is a Borrower. All Borrowers must sign the Mortgage Note.

A Borrower must be an individual. Title must be in Borrower's name at time of application for refinance transactions and at time of closing for all transactions. Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. However, living trusts and Illinois Land Trusts are eligible under certain conditions. See the Loans to Trusts section in this chapter. In addition, title held in the name of a limited liability company (LLC) may be eligible provided the Borrower is a member of the LLC and title is transferred to the Borrower's name at closing.

Borrowers must meet *credit* and *program eligibility* requirements. See the following **Borrower Eligibility** guidelines.

U.S. Citizen

The Borrower must have a valid social security number and be a citizen of the United States or of a U.S. Possession or Territory.

Non-U.S. Citizen

1. Permanent Resident

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card (form I-551). Document legal residency with one of the following:

- A valid and current Permanent Resident card (form I-551); or
- A passport stamped "processed for I-551," "temporary evidence of lawful admission for permanent residence," "valid until _______," and "employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card (form I-551).

See http://www.uscis.gov/ for more information.

2. Non-Permanent Resident

A non-permanent resident is a non-U.S. citizen who lawfully enters the United States for specific time periods under the terms of a visa. A non-permanent resident status may or may not permit employment.

Verification that the Borrower has one of the following is required:

- Unexpired Employment Authorization Document ("EAD") issued by the United States Citizenship and Immigration Services ("USCIS").
- One of the following visas: H series, L, E-1, G series or TN Visa. For further information see http://www.uscis.gov/
    - ✦ Expiring visas: If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.
- A valid passport, letter from employer/sponsor and an I-94 proving work authorization

**Copy of front and back of any documentation provided to prove current residency is required.if needed to confirm expiration date

*All Borrowers signing the Mortgage Note must have a valid social security number.

*Individuals classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure or Humanitarian Parole are not eligible.

3. Foreign Nationals that do not meet the requirement of non-permanent resident guidelines above

Non-Occupant Co-Borrower, Guarantor, and Co-Signer:

Non-Occupant Co-Borrower (Ineligible Borrower type)

A non-occupant Co-Borrower is a credit applicant who:

- Has an ownership interest in the property as indicated on the Title;
- Signs the Mortgage;
- Signs the Mortgage Note and thus has joint liability for the Mortgage Note with the occupant

Guarantor or Co-Signer (Ineligible Borrower type)

A guarantor or co-signer is a credit applicant who:

- Does not have ownership interest in the property as indicated on the title;
- Signs the Mortgage;
- Signs the Mortgage Note and thus has joint liability for the Mortgage Note with the occupant Borrower; and/or
- Does not have an interest in the property sales transaction.

All individuals who hold title to the Mortgaged Property are required to sign the Security Instrument but are not required to sign the Mortgage Loan Application or the Mortgage Note unless their income is used for qualifying purposes.

Non-Arm's Length Transactions.

A **non-arm's length transaction**, also known as an **arm**-in-**arm transaction**, refers to a business deal in which buyers and sellers have an identity of interest; in short, buyers and sellers have an existing relationship, whether business-related or personal.

Spring EQ does not allow these transactions with the exception of a tenant buying the property that they are currently renting; from the landlord/owner of the property. All other Non-Arm's Length Transactions are ineligible for financing

Multiple Properties Financed/Owned

The policy on properties financed limits is designed to protect Spring EQ from excessive risk exposure.

Each borrower is limited to no more than 10 Financed properties. All financed properties count in total, even when the mortgage is not with SpringEQ

A. Ownership Defined

- Partial or joint ownership is considered the same as total ownership in the property
- Ownership applies to financed properties owned by the Borrower, including any properties the Borrower owns outside of the United States
- A Borrower who is obligated on a Mortgage, regardless of whether they hold title to the Mortgaged Property is included in this limitation
- These limitations apply to the total number of all financed properties, not to the number of mortgages on the property

Property Subject to Limitations

Type of Property Ownership	Subject to Limitations
Joint ownership of residential real estate (considered to be the same as total ownership of an individual property)	**YES**
Ownership in commercial real estate	**NO**
Ownership of a multi-family property consisting of more than four dwelling units	**NO**
Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation	**NO**
Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation; however, the financing is in the name of the Borrower	**YES**
Ownership in a timeshare	**NO**
Obligation on a mortgage debt for a residential property (regardless of whether or not the Borrower is an owner of the property)	**YES**
Ownership of a vacant (residential) lot	**NO**
Joint or total ownership of a property that is held in the name of an LLC or partnership (Limited or General Partnership)	**YES**

Ownership of a manufactured home and the land on which it is situated that is titled as real property	**YES**
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home	**NO**

Simultaneous Transactions

All new Mortgage Loans submitted for the same Borrower must be underwritten simultaneously as the impact of each transaction upon the other need to be evaluated.

Title/Vesting

Owner and Encumbrance Report

For loan amounts </= 250K, Springe EQ will utilize an Owner & Encumbrance report

The purpose of the Owner & Encumbrance Report is to provide the following information:

- Current grantee and grantor
- Last deed of record information
- Recordable legal description
- Status of real estate taxes
- Open mortgages and voluntary encumbrances
- Judgments, liens and involuntary encumbrances

Title must be in Borrower's name and at time of application for all transactions and at time of closing for all transactions.

Eligible Ownership Interests:

- Fee Simple

Ineligible Ownership Interests:

- Life Estates
- Leasehold Estate

Transaction Types

Eligible Transaction Types

- Refinance Transactions
- Purchase transactions
- Simultaneous closings (Piggyback)

Ineligible Transaction Types

- Loans in first lien position (HELOC Eligible only)
- Single Note loan modification.

Senior Lien terms

Spring EQ is committed to originating only Qualified Mortgages. Based on the guidance from the CFPB on mortgage loans that have high risk characteristics, Spring EQ will not permit loans in 1st lien position to contain any risk features that could impact the borrower's ability to repay

Ineligible Senior Lien terms include, but are not limited to:

- Tax and judgment liens;
- Mortgages originated with balloon terms;
  ***Balloon terms resulting from a prior loan modification are acceptable subject to the modification requirement

Subordinate mortgages that allow negative amortization (this does not include language in the Mortgage Note Warning Borrowers that the lack of payment may result in negative equity and negative amortization is not a feature of the product);

- Reverse Mortgages

Credit

This section outlines Spring EQ's credit requirements that apply to all Mortgage Loan Programs. Generally, requirements that vary from one Mortgage Loan Program to another are described in the Product Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the Underwriter.

Underwriting Methods

All Spring EQ originated loans are manually underwritten.

Documentation Requirements

Documentation Age

The credit report must be dated no more than 60 days prior to the Mortgage Note date.

Documentation Standards

All accounts, revolving and installment, reported by the Borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current account status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Credit Report Requirements

The Mortgage Loan File must contain an Experian Single repository credit report.

When a new or retyped credit report is provided, all prior credit reports must be included in the Mortgage Loan File. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

The credit reports used to evaluate a Mortgage Loan may not have Frozen Credit. If a Borrower unfreezes his or her credit after the date that the original credit report was ordered, credit report must be obtained to reflect current updated information from all applicable repositories. Nontraditional credit is not acceptable as a replacement for Frozen Credit.

All credit reports must include FACT Act messages and at least one repository fraud alert product (Hawk Alert, FACS+ or SafeScan).

When the credit report shows a victim statement under the FACT Act, the Originator must document in writing the steps taken to validate the Mortgage Loan Application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the Mortgage Loan File. Although due diligence is required, it does not release the Originator from its representations and warranties regarding misrepresentation.

Credit Report Red Flags

When underwriting a credit report, the Borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The Borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched.

Non-Traditional Credit Report

Non-traditional credit reports are **not** acceptable.

Non-U.S. Citizens

A Credit Score is required and therefore foreign credit is **not** acceptable.

Selection and Validation of Credit Score

The Credit Score will be used as a component in evaluating the credit quality of the Mortgage Loan.

Selecting the Credit Score for Mortgage Loan qualification is a two-step process. First, the Credit Score must be selected for each individual Borrower and, second, the Credit Score used for Mortgage Loan qualification is selected.

Selection

Select the Credit Score for each Borrower by using one of the following methods:

- Experian representative credit score if single repository is used

If more than one Credit Score is supplied from the same repository, the lowest score will be used in all cases.

Loan Qualification Score

Use the lowest selected Credit Score among all Borrowers. All Borrowers must meet the minimum Credit Score and all other credit evaluation requirements.

Authorized User Accounts

When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and Credit Score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

Authorized user accounts cannot be considered in the underwriting decision. The debt is also not counted against the borrower when calculating ratios.

Tradeline Requirements

All Mortgage Loans require a Credit Score based on a minimum credit history and trade line requirements. Spring EQ requires all borrowers contributing income to meet ONE of the following:

- Minimum of three trade lines regardless of timeline. At least one trade line must be open with the date of the last activity within six months from the current date and reporting for the past 12 months; **OR**
- A current mortgage paid as agreed for the past 36 months

Authorized user accounts may not be used to satisfy the trade line requirements.
Active trade lines are defined by the date of the last activity on the account within six months from the current date.

Accounts added using Experian boost may be considered in the total tradelines required, the debt must be included in the DTI since it was used to have the borrower qualify with the number of tradelines required.

Credit History Evaluation

The Borrower's credit profile must be traditionally evaluated for manually underwritten Mortgage Loans.

The evaluation of the Borrower's credit profile must be based on the entire credit history documented in the Mortgage Loan File. The manner in which the Borrower has managed his or her previous credit is a strong indicator of future performance. In a subjective evaluation of credit, many factors are considered when evaluating a Borrower's credit history. These include:

- Credit utilization;
- Number and age of accounts; and
- Payment history.

The following factors may not be used as offsets for weaknesses in the Borrower's credit reputation because they have already been considered in creating the Credit Score:

- The absence of, or age of, derogatory information;
- The number/proportion of accounts paid as agreed versus Delinquent;
- The types of accounts paid as agreed versus the type of accounts that are Delinquent;
- Recent paydown or consolidation of account balances by the Borrower;
- The length of the Borrower's credit history; and
- Any combinations of the above factors.

Credit Utilization

Review the credit report to evaluate the Borrower's use of revolving credit by comparing the current balance on each account to the amount of credit that is available to determine whether the Borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Patterns of revolving credit spending are credit risk indicative.

Credit histories that include revolving accounts with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

A credit history that includes recently opened accounts that are at or near their limits may indicate that the Borrower is overextended or overly reliant on the use of revolving credit, and, when combined with a delinquent payment history, is generally an indication that the Borrower has not managed his or her credit successfully.

Inquiries and Undisclosed Liabilities

All debt incurred during the application process and through loan closing of the Mortgage must be disclosed on the final application and included in the Mortgage Loan qualification. When the credit report reveals a significant debt not listed on the application, a written explanation from the Borrower addressing the omission may be required. The absence of a written explanation from the Borrower may render the Mortgage Loan ineligible.

Review the section of the Borrower's credit report that indicates the presence of creditor inquiries. Recent inquiries may indicate that the Borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher risk (whether or not the Borrower obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.

When the credit report indicates recent inquiries, confirm that the Borrower has not applied for and/or been approved for or obtained any additional credit that is not reflected in the credit report or the Mortgage Loan Application. If additional credit was applied for and/or approved or obtained, a verification of that debt must be provided, and the Borrower must be qualified with the monthly payment.

Validation must be made with any of the following methods, with the applicable documentation provided in the Mortgage Loan File:

- Retrieving a refreshed credit report and reviewing it for additional credit lines. If a new inquiry is identified on the refreshed credit report, a detailed letter of explanation from the Borrower is required;
- Direct verification with a creditor that is listed on the credit report under recent inquires to determine whether a prospective Borrower did in fact enter into a financial arrangement with a creditor, which may not be listed on the Mortgage Loan Application;
- Third party vendor debt monitoring service; or
- Inquiry letter addressing all inquiries in the most recent 90 days

As a result of the Borrower's explanation letter, additional research and documentation may be needed.

In addition, running a MERS report to determine if the Borrower has undisclosed liens or another mortgage being established simultaneously may also be used to reduce the risk of undisclosed obligations.

If additional debt has been incurred, the Mortgage Loan must be re-underwritten with the new debt to ensure the debt-to-income ratio is still within Program Guidelines.

Number and Age of Accounts

Review the age of the Borrower's credit history to determine whether the Borrower has an older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or a mix of new account and older accounts.

Credit histories that include older, established accounts generally represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the Borrower is overextended, and may represent a higher credit risk.

A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

A change in the Borrower's pattern of credit use, which includes several newly opened revolving accounts, several inquiries and high utilization of revolving trade lines, indicates significant layering of risk to the Borrower's credit profile.

Payment History

Review the credit report to determine the current status of each credit account, including mortgages, the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

- Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90+ days past due, determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the Borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit.
- Credit histories that include foreclosures, deed-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk

Housing Payment History

When the date last active (DLA) on a mortgage rating is within 45 days of application date as listed on the credit report and the rating covers a 24-month period, no additional documentation is necessary. If these requirements are not satisfied, the mortgage rating must be updated through a supplement to the credit report OR cancelled checks. A verification of mortgage is not acceptable.

A mortgage payment is considered current if it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

Payment history on any property, regardless of occupancy, is considered mortgage credit. Payment histories on all mortgage trade lines, including first and second mortgage liens, HELOCs, Mobile Homes, and Manufactured Homes are considered mortgage credit, even if reported as an installment loan.

- **Mortgage**
  See Product Matrix for specific requirements
- **Landlord (for purchase transactions only)**
  See Product Matrix for specific requirements

Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, and short sales.

Determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information and confirm that the Borrower has reestablished an acceptable credit history.

For cases where a Significant derogatory event is present, the following time periods must have elapsed prior to loan being eligible:

- Foreclosure – 7 Years
- Charge-Off of a Mortgage Account, Deed-in Lieu, Pre-foreclosure Sale or Short Sale – 4 Years
- Restructured or Short Payoff of any mortgage – 4 years
- Chapter 7 or 11 Bankruptcy – 4 years from discharge or 4 years from dismissal
- Chapter 13 Bankruptcy- 2 years from discharge or 4 years from dismissal
- Multiple Events within the past 7 years are not permitted. Both events must be greater than 7 years

Derogatory credit information is not significant when it consists only of isolated late payments, even if several accounts show sporadic late payments, provided all of the following exist:

- The late payments were not recent;
- The late payments did not extend beyond one month;
- The number and size of delinquent accounts is not large in relation to the overall credit;
- The credit history does not show multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit; and
- All other credit has been paid as agreed.

However, the derogatory information is significant if any of the following exist:

- There are several accounts showing recent late payments;
- There are multiple 60-day or 90-day late payments;
- There is more than one 30-day late housing payment in the last 12 months;
- There are more than two 30-day or more than one 60-day late housing payments within the most recent two years;
- The number and size of the delinquent accounts are large in relation to the overall credit;
- There are multiple episodes of late payments extending over a period of time;
- The credit history shows derogatory credit information within the two most recent years combined with multiple revolving accounts with high balances-to-limits;
- The public record information reveals several occurrences of derogatory credit information, including judgments, tax liens and/or collection accounts;
- There is a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale within the last seven years that is disclosed on a Credit Report; or
- Disclosed by the Borrower on the uniform residential loan application or is evidenced by other documentation contained in the Mortgage Loan File.

A Borrower is eligible when they are in Consumer Credit Counseling provided **all** the following criteria are met:

- Credit Score requirements are met;
- Qualifying ratios must be calculated on the creditor's minimum monthly payment (per the credit report) versus the reduced Consumer Credit Counseling payment;
- All accounts must be current; and
- No cash in hand unless all accounts included in the Consumer Credit Counseling are paid

Major Adverse Credit

Major adverse credit are collection accounts, charge-off accounts, judgments, liens, delinquent property taxes, repossessions, garnishments, and non-mortgage accounts currently 90 days or more delinquent.

Major adverse accounts reporting within the past 24 months is permitted when isolated accounts have less than a $500 cumulative balance. These accounts may be left open provided they do not affect title.

Major adverse accounts reporting older than 24 months is permitted based on the following:

- All State, IRS, and property tax liens (for the Mortgaged Property and other properties), regardless of seasoning, are required to be paid whether or not they currently affect title. No payment plans, or subordination is allowed.
- All other adverse accounts over 24 months old that do not affect title are not required to be paid.

Shared Appreciation Modification Agreements

1) These agreements are eligible
2) CLTV is based off the current appraised value minus any appreciation due back to modifying lender based on that appraised value.
    a. Example.
        i. Current principal balance is $100,000
        ii. Appraised value is $200,000
        iii. Shared appreciation factor is 25%
            1. 200,000 – 100,000 = 100,000 (appreciation)
            2. 100,000*.25 = $25,000 in appreciation due back to the lender

CLTV to be calculated as:
UPB = 100,000
Spring EQ lien = 25,000 (hypothetical)
Shared Appreciation = 25,000

150,000/200,000 = 75%

Assets

This section outlines Spring EQ's asset requirements that apply to all Spring EQ Mortgage Loan Programs. Generally, requirements that vary from one Mortgage Loan Program to another are described in the Product Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Documentation Age

Asset documentation must be dated within 60 days from the Mortgage Note date.

Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the Borrower has sufficient funds to pay the down payment, prepaid items, and closing costs only when the amount required exceeds one-month PITIA of the proposed housing payment

All down payment funds and cash to close must be documented and verified only in. Electronic verifications are acceptable.

All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable.

NOTE Documentation of funds to close is not required of the amount is less than one month of the proposed PITIA payment for the proposed transaction. Verification of assets used for a simultaneous 1st lien is not required.

Foreign Assets

Foreign assets being used for down payment, closing costs and reserves must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be converted into United States currency by an independent third party and placed in a United States banking institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Asset Sources

Acceptable sources of assets are listed below:

- Bank Accounts
- Bank Statements
- Verification of Deposits
- Review of Bank Account Statements
- Review of Settlement Statements
- Retirement Accounts
- Down Payment and Closing Costs
- Cash Reserves
- Stocks/Bonds
- Stock – Privately Held Corporation
- Systematic Savings
- Trust Funds

Bank Accounts

Bank accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts. These funds may be used for the down payment and closing costs.

- Individual Accounts - Funds in the Borrower's individual bank account is acceptable
- Joint Accounts - Funds held in a joint checking or joint savings account are acceptable since the Borrower has access to all funds in the account at all times
- Trust Accounts - Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds.

Accounts that do not allow the Borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the Borrower is not the beneficiary, such as custodial accounts.

Bank Statements

Two consecutive monthly bank statements may be obtained to document the Borrower's assets. Bank statements must be dated within 30 days of application. Quarterly and annual bank statements dated greater than 30 days and less than 90 days are acceptable with verification that the funds are still available such as a recent account summary to confirm availability of funds.

Bank statements must clearly identify:

- Name and address of the depository or investment institution;
- The Borrower as the account holder;
- At least 4 digits of the Account number;
- Time period covered by the statement;
- All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account; and
- Ending account balance.

If a supplemental statement is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance and date is acceptable. Supplemental information must be on a bank form indicating the name of the bank or on bank letterhead signed by a bank representative. ATM receipts are not permitted.

Bank statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the internet uniform resource locator address is included identifying the source of information as well as all of the other information listed above for standard bank statements or protected bank statements retrieved online. Statements downloaded directly from the internet to a Microsoft Word document or Microsoft Excel spreadsheet

Verification of Deposit

A Verification of Deposit as a standalone document is not acceptable. Full account statements must be provided. A Verification of Deposit issued by the depository institution may be obtained. Each Verification of Deposit must clearly identify:

- The name and address of the depository or investment institution;
- The Borrower as the account holder;
- Account number;
- Type of account;
- The open date;
- The account balance as of the date of the VOD;
- The average balance for the previous two months; and

In cases where average balances are not available, the most recent two months bank statements must be provided.

The VOD must be remitted directly to the depository. A VOD should never be mailed to a post office box or to an individual's attention. If the Borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.

Review of Bank Account Statements

Any indications of borrowed funds must be investigated. Indications of borrowed funds include:

- A recently opened account; or
- A recently received large deposit; or
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account with a substantial balance, a discrepancy between the average and current balances or a large increase in an existing account, the source of funds must be explained by the Borrower and verified. If a large deposit is from another account that is verified in the Mortgage Loan File, that account must be verified after the withdrawal to ensure that the assets are not counted twice. Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves. Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.

Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRS, and KEOGH) and tax-favored retirement savings accounts (e.g. 401(k), 403(b)) may be used as the source of funds for down payment, closing costs, or cash reserves. The most recent retirement account statement must be provided and must identify;

- Evidence that the funds have been liquidated prior to closing

Down Payment and Closing Costs

When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn, and proof of withdrawal must be provided.

Savings Bonds

United States savings bonds may be used as a source of funds for down payment, closing costs or cash reserves. When savings bonds are being used for cash reserves, verification must include a statement from a representative at a financial institution confirming that they have seen the bonds, listing the serial numbers of the bonds, maturity date, type and amount of bond, and stating that the Borrower is the owner. There must be proof of the bond value from the appropriate U.S. Treasury Table.

If the assets are required for closing, proof of redemption and receipt is required.

Stocks/Bonds

The value of stocks, bonds or mutual funds must be documented by:

- Current statement; and
- Photocopy of the stock certificate accompanied by a current, dated newspaper or internet stock list.

When using stocks or bonds for reserves, only 70 percent of the value may be used.

Government bonds should be valued at the purchase price unless redemption value can be determined and verified.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

Verification of liquidation and receipt is required when the funds from the sale of stocks/bonds are used for down payment, closing costs, or other costs.

Stock – Privately Held Corporation/Unlisted Corporation

When the stock of a privately held (not publicly traded) corporation will be used as funds for down payment, closing costs and/ or reserves, the price per share must be validated by a CPA for the corporation. A copy of the buy/sell agreement is also required. Verification of receipt of the funds from the sale of the stock is required. When using the funds for reserves, only 70 percent of the value may be used.

In the situation where the privately held corporation is a source of the Borrower's income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse effect on the business or reduce the Borrower's current income level.

Systematic Savings

Borrowers should have the funds needed to close the transaction at the time of underwriting. However, a loan to a Borrower who does not have sufficient assets to close may be underwritten subject to the following parameters:

- 80 percent of the required assets must be documented
- The ability of the Borrower to save based on his/her income and debts must be documented; and
- The required assets must be documented and verified in the Borrower's account prior to closing.

Trust Funds

Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details the following information:

- Identifies the trustee, including name, address, telephone number and individual contact. The trustee must be an independent party that typically handles trust accounts, such as a trust company, financial institution, CPA, or lawyer.
- Identifies the Borrower as the beneficiary.
- Shows that the Borrower has access to all or certain specific amount of the funds.
- Evidences that the trust has the assets to disburse funds to the Borrower.
- If the assets are required for closing, proof of receipt is required.

Unacceptable Sources of Assets

Sources of funds considered ineligible include, but is not limited to the following:

- Business Funds
- Bridge Loans
- Cash advance on a revolving charge account or unsecured line of credit.
- Cash for which the source cannot be verified (e.g., garage sales).
- Contribution limitations.
- Credit card financing
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing contributions in the seller concession
- Funds from a community second mortgage/down payment assistance program • Funds in a custodial or in trust for account.
- Gift that must be repaid in full or in part.
- Individual development accounts.
- Labor performed by the Borrower, also referred to as sweat equity.
- Materials furnished by the Borrower that are not part of a pre-closing agreement with a builder.
- Pooled funds.
- Real estate commission.
- Salary advance.
- Gift Funds

Liabilities & Debt Ratios

The Liabilities & Debt Ratios standards apply to all Mortgage Loan Programs. Generally, requirements that vary from one Mortgage Loan Program to another are described in the Product Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Overview

Ratios are used to compare the Borrower’s anticipated monthly housing expense and total monthly obligations to stable monthly gross income. These ratios indicate limitations on the Borrower’s ability to meet expenses involved in home ownership.

Loan ratio requirements are discussed under the following topics:

- Monthly Housing Expenses
- Qualifying Housing Payment
- Monthly Debt Obligations
- Total Qualifying Debt-to-Income Ratios (DTI)
- Possible Exclusions to DTI
- Debt Payoff

Monthly Housing Expenses

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

- Principal and Interest payments on the first mortgage loan;
- Interest payments for interest only loans;
- Subordinate financing payments on mortgages secured by the subject property;
- Hazard Insurance premiums;
- Flood Insurance premiums;
- Mortgage Insurance Premiums;
- Real estate taxes;
- Homeowners’ Association dues;
- Leasehold payments;
- Ground rent; and
- Special assessments.

Qualifying Housing Payment

Generally, the Principal and Interest payment, based on the actual interest rate, is used to determine the Borrower's monthly housing expense.

See the Product Matrices for specific requirements on qualifying rates, formulas and limitations.

Total Qualifying Debt-to-Income Ratios

Debt-to-income ratios compare all monthly obligations and debt payments to monthly stable income. In evaluating the total debt-to-income ratio, be aware of the degree and frequency of credit usage and its impact on Borrower's ability to repay the loan.

The debt-to-income ratio is a factor in determining the Mortgage Loan Program for which Borrower is eligible. The maximum allowable debt-to-income ratio will vary by individual Mortgage Loan Programs. See the Product Matrices for debt-to-income ratio limits.

Monthly Debt Obligations

The Borrower's ability to repay mortgage debt is critical in evaluating the overall quality of the Mortgage Loan. Assess the Borrower's liabilities relating to the number of active accounts, usage and repayment history. Evaluation of the Borrower's capacity includes an assessment of the Borrower's financial obligations in relation to income.

The total monthly debt obligations considered is the sum of all housing expenses plus any other monthly expenses incurred by the Borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation. See the Debt Pay Off/Pay Down section in this chapter regarding paying off or paying down debt to qualify.

Monthly Debt Obligation

Monthly expenses include:

- Alimony, Child Support and Maintenance Payments
- Authorized user
- Bridge Loans
- Business Debt in Borrower's Name
- Co-Signed Loans
- Court-ordered Assignment of Debt
- Deferred Installment Debt
- Home Equity Lines of Credit
- Installment Debt
- Lease Payments
- Loans Secured by Financial Assets
- Mortgage Assumptions
- Open 30-day Charge Accounts
- Other Real Estate Owned
- Property Settlement Buy-out
- Revolving Charges/Lines of Credit
- Student Loans
- Voluntary Recurring Debt

Alimony, Child Support and Maintenance Payments

When the Borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for more than 10 months, the payments must be considered in the debt-to-income ratio (and may not be deducted from income). The alimony, child support and maintenance payments may not be deducted from income. Voluntary payments do not need to be taken into consideration.

One of the following is required to document the payment and the number of remaining payments:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it was received; or
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Authorized User

When the Borrowers are authorized to use a credit account and have no financial responsibility for repayment. Authorized user accounts are not required to be include in the DTI

Bridge Loans are not Permitted.

A bridge loan is a form of mortgage secured by the Borrower's present home, which is for sale. By using funds from this loan, the Borrower can close on a new home before selling the present home. Bridge loans must be included in the Borrower's debt-to-income ratio.

Business Debt in Borrower's Name

When a self-employed Borrower indicates that certain liabilities are paid by his or her business, it must be confirmed that the obligation was paid from company funds and meets all of the following requirements:

- There is no history of delinquency;
- A minimum of 12 months evidence documenting that the debt is paid by the business account; and

The payment must be included in the Borrower's individual recurring monthly debt obligations if any of the following situations exist:

- The business does not provide sufficient evidence that the obligation was paid out of company funds.
- The business provides acceptable evidence of its payment of the obligation, but the cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense - and taxes and insurance, if applicable - equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan).
- It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency

To ensure that the obligation is counted only once, adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any that relates to the account in question.

Co-Signed Loans

When a Borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit, but is not actually repaying the debt, the Borrower has a contingent liability.

The contingent liability must be included in the debt-to-income ratio, unless the account has been open for a minimum of 12 months and there is documentation to evidence the primary debtor has been making satisfactory payments for a minimum of 12 consecutive months and the account is current.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.
A Debt may not be excluded unless the party making the payments is obligated on the liability that is being excluded

Court-Ordered Assignment of Debt

When the Borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement),
and the creditor does not release the Borrower from liability, it may be excluded from the debt-to-income ratio if all of the following can be documented:

- Copy of the court order assigning the debt; and
- Proof of transfer of ownership.

The payment history of the debt need not be taken into consideration after the transfer date occurred.

Deferred Installment Debt

Loans deferred or in forbearance are always included in the loan qualification. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the Borrower's payment letters or forbearance must be obtained to determine the monthly payment used for loan qualification.

For information about Deferred Student Loans, see Student Loans Section

Home Equity Lines of Credit

When the Mortgaged Property has a home equity line of credit that has a balance and monthly payment, that payment must be considered part of the Borrower's recurring monthly debt obligations. If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs be included in the recurring debt obligations.

If there are other open home equity lines of credit on the credit report with a zero balance, no monthly payment needs to be included in the recurring debt obligations.

Installment Debt

Installment debt that is not secured by a financial asset, including student loans, automobile loans, timeshares, and home equity loans, must be included in the Borrower's monthly debt obligations, if there are more than 10 months remaining. On a case-by-case basis, an installment debt with fewer than 10 monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the Borrower's ability to meet his or her monthly obligations.

Lease Payments

Lease payments must be included in the Borrower’s recurring monthly debt obligations, regardless of the number of months remaining on the lease or if that lease is being paid with proceeds.

Loans Secured by Financial Assets

The Borrower may use his or her financial assets (life insurance policies, 401k accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan. The payment on this type of loan is not required to be included in the debt-to-income ratio provided the applicable loan instrument shows the Borrower's financial asset as collateral for the loan

Mortgage Assumptions

When the Borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release or liability, the Borrower has a contingent liability.

The contingent liability (PITIA) does not need to be included in the debt-to-income ratio if verification that property purchaser has at least a 12-month history of making regular and timely payments for the mortgage is provided. The following documentation must be provided:

- Evidence of transfer of ownership;
- Copy of the formal, executed assumption agreement; and
- Credit report indicating that the consistent and timely payments were made for the assumed mortgage.

If timely payments for the most recent 12-month period cannot be documented, the mortgage payment must be included in the Borrower's recurring monthly debt obligations.

Open 30-day Charge Accounts

Open 30-day charge accounts with account balances are required to be paid off unless **one** of the following is satisfied:

- Borrower has sufficient assets to cover the unpaid balance; **or**
- Borrower will receive reimbursement of the charges from his or her employer; **or**
- If borrower has a portion of the balance outstanding that is paid overtime the following are required:
    - Statement showing the amount due in full and the amount paid over time
    - Monthly payment for the paid over time option is included in the DTI
    - Sufficient assets for the pay in full portion must be documented

Note: 2 months of banks statements are required to verify assets.

Other Real Estate Owned

Mortgage payments and related expenses on any non-income producing real estate must be included in the Borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property which is currently pending sale (not closing prior to subject transaction), or a property retained as a Second Home or investment property. Consider the following:

- Aggregate net negative rental income from all rental properties; and
- Current rental payment (when Borrower is currently renting and purchasing a Second Home or investment).

For details regarding the qualifying impact of other real estate owned, see the Transactions Chapter

When the Mortgage Loan Application reflects the Borrower owns other real estate free and clear of mortgage liens or encumbrances, evidence is typically not required. However, under certain circumstances the underwriter may require documentation confirming the real estate is unencumbered. The Borrower must qualify with the applicable taxes, hazard insurance, Homeowners' Association dues/fees (if applicable), and any other related expenses, which must be documented.

Property Settlement Buy-Out

When the Borrower's interest in a property is bought-out by another co-owner of the property, the mortgage lender may not release the Borrower from liability under the mortgage, thus creating a contingent liability for the Borrower. This contingent liability does not need to be included in the debt-to-income ratio provided there is documentation to evidence the transfer of title of the property.

Revolving Charge/Lines of Credit

Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the Borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit.

If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, use five percent of the outstanding balance as the recurring monthly debt obligation.

Student Loans

For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the following will be used to determine the monthly payment may be used as the borrower's recurring monthly debt obligation:

- the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the borrower); or
- 1% of the outstanding balance

Solar Panels/UCC Filings

- When solar panel UCC filing shows up on title verification of solar panel obligations is required. Otherwise, verification is not required

For all solar Panel obligations, the following are required:

- Copy of account statement to ensure DTI is accurate
  Obtaining the statement for solar panels to calc DTI is only required when a financing statement/Lien is present on title.
- No document is required when:
  - The liability is present on the credit report
  - Solar panels are present in photos on appraisal and there is NO financing statement

Voluntary Recurring Debts

Voluntary recurring debts should generally not be considered in the underwriting analysis or subtracted from gross income (401k contributions, 401k loans, union dues, commuting expenses, open accounts with zero balances, federal, state, and local taxes, or other voluntary deductions). Specific circumstances in an individual file must always be analyzed.

See the Employment and Income Analysis and Documentation chapter for treatment of business expenses.

Debt Pay Off/Pay Down (with loan proceeds)

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The Borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- **Paydown of any mortgage to meet DTI or CLTV requirements is not permitted**

  Not Permitted

- **Pay Off of Revolving Debt for Loan Qualification**

  Permitted

- **Pay Off Installment Debt for Loan Qualification**

  Permitted. **If installment debt is a lease, it must be included in the DTI regardless of paying in full

- **Pay Down of Revolving Debt for Loan Qualification**

  Not Permitted.

- **Pay Down of Installment Debt for Loan Qualification**

  Not Permitted.

Employment and Income Analysis and Documentation

This section outlines Spring EQ's employment and income analysis and documentation requirements that apply to all Mortgage Loan Programs. Requirements are in place to ensure that the Borrower's income analysis is compliant with the requirements for determining the monthly income as indicated in Appendix Q part 1026 of Regulation Z of the Board of Governors of the Federal Reserve System (codified as 12 CFR 1026.1 et seq.). Generally, requirements that vary from one Mortgage Loan Program to another are described in the Product Matrices and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Stability and Continuance of Employment and Income

Income may not be used if it comes from any source that cannot be verified, is not stable, or will not continue.

When analyzing a Borrower's employment record, the following must be examined:

- The Borrower's past employment record;
- Previous training and education; and
- The employer's confirmation of continued employment.

A minimum of two years employment history and continuance of income for three years is generally required for all Borrowers whose income is being used to qualify. Unless there is evidence that the income will no longer be received, conclude that the income will continue for three years.

If a Borrower's employment history includes unemployment, the application must reflect at least two years of employment, therefore covering a longer period of time. If the Borrower has less than a two-year history of receiving income, a written analysis justifying the determination that the income being used for qualification is stable must be provided.

Consider both the length of the Borrower's employment with any one employer and the stable and reliable flow of income. When evaluating a Borrower who has frequent job changes or unemployment, focus on whether the changes have affected the Borrower's ability to repay their obligations. If the Borrower provides documentation of a consistent level and type of income and the ability to pay his or her obligations despite changes in the source of that income, it can be presumed that the Borrower's income level is stable. Automated underwriting recommends acceptable levels of documentation, which may not be adequate for every Borrower and every situation (such as long periods of unemployment). In these cases, additional documentation may be required.

Known economic conditions, such as plant closings or company bankruptcies that may affect the Borrower's income, must be taken into consideration.

The amount of income claimed by the Borrower must be reasonable for the Borrower's position/job title, education, age, assets, and geographic location.

Special attention should be paid to the income feasibility by reviewing the credit report, credit profile and examining the bank statements for income/deposit patterns.

A level or upward trend in earnings must be established. Any decreases or significant increases could affect the stability of the Borrower's income and would require further analysis and a satisfactory explanation. If a satisfactory explanation cannot be provided, the income will be considered questionable and should not be used to qualify the Borrower.

Borrowers who change jobs for advancement and maintain a stable earning capacity and good credit history, as well as Borrowers with demonstrated job stability, will be eligible. Education or training to enhance job opportunities and income will receive favorable consideration. If a Borrower does not meet the employment history requirement for the two full years prior to the date of the Mortgage Loan Application, and was previously in school or the military, obtain copies of the Borrower's diploma/transcripts or discharge papers.

Employment Gaps

The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of employment.

Written letters of explanation for employment gaps over 30 days in the last two years must be provided. In addition, Borrowers who are reentering the work force after an extended absence may have stable employment if the following are met:

- The Borrower has been employed in his or her current job for six months or more; and • A two-year work history prior to the absence from the workforce is documented.

Furloughed Borrowers

Borrowers in a state with an *active furlough policy* must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer.

Full pay may be used if there is evidence from the employer or third-party documentation that the furlough will end within the next 60 days and there is no discussion to extend the furlough.

Borrowers planning to retire during the first three years of new loan

If any Borrower on the transaction is to retire during the first three-year period, the following must be considered in determining the Borrower's debt-to-income ratio:

- Documented retirement benefits;
- Social security payments; and
- Other payments expected to be received in retirement.

Documentation Age and Standards

Documentation Age

All employment and income documents must be dated no more than 60 days prior to the Mortgage Note date.

Documentation Standards

Each income documentation form and requirements are discussed below:

Tax Information Authorization IRS Form 4506-T/Tax Transcripts
Paystubs
W-2s
Written Verification of Employment
Verbal Verification of Employment
Personal Tax Returns
Income Calculation Worksheet

Tax Information Authorization IRS Form 4506-T/Tax Transcripts

All Borrowers whose income is used to qualify must sign and date a completed and unexpired IRS Form 4506-T at application, authorizing Spring EQ or it assigns to obtain income information. The form must not expire before a reasonable time to allow Spring EQ to process, if needed. In addition, the Borrowers must sign a new IRS Form 4506-T at closing to allow for possible post funding quality control processing.

The IRS Form 4506-T must be processed, and tax transcripts obtained to validate the Borrower's personal tax returns and/or W-2s for the most recent two years if applicable. Evaluate the information provided by the IRS during the underwriting process. Significant differences must be reviewed, resolved and detailed comments provided regarding the resolution documented on the transmittal summary.

If a Borrower is not required to file last year's tax return and the source of income cannot be validated through the IRS Form 4506-T process, documentation supporting the lack of filing tax returns must be provided. See

Table 1-1.2010 Filing Requirements for Most Taxpayers

Published by the IRS for guidance when related to identify theft.

In some circumstances and after completion of the Mortgage Loan review, Spring EQ may require a signed IRS Form 4506-T with Box 8 checked to obtain W-2s or 1099 series transcripts. This may be required when the Borrower was not required to file tax returns.

Paystubs

The paystubs must clearly identify the following:

- Borrower as the employee;
- Gross earnings for the current pay period and year-to-date earnings;
- Year-to date-earnings must cover the most recent 30-day period;
- Reflect pay period; and
- Employer name.

If the Borrower is paid hourly, the number of hours must be noted on the paystubs.

Paystubs must be computer generated or typed. If the employer does not provide acceptable computer generated or typed paystubs, the most recent years income tax return and W-2 is required.

Paystubs must not have any alterations

Paystubs that are issued electronically, via e-mail or downloaded from the internet are acceptable and must Include the following:

- Internet uniform resource locator address identifying the source of the information.
- Date and time printed.
- Verbal verification of employment.
- The documentation must also contain information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification.
- Documents downloaded directly from the internet to a Microsoft Word document or Microsoft Excel spreadsheets are not acceptable.

W-2's

- The W-2 must clearly identify the Borrower as the employee and the employer name.
- Should be the employee copy provided by the employer.
- W-2s must be computer-generated or typed
- W-2s must not have any alterations.

Written Verification of Employment

Written verification of employment must contain the following information:

- Dates of employment.
- Position.
- Prospect of continued employment, when available.
- 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.
- Additional salary information, which itemizes bonus, overtime, tip, gratuity, or commission income, if applicable.

If a verification of employment is used, mail directly to the employer to the attention of the personnel department. Verifications of employment should never be mailed to a post office box or to an individual's attention. If the Borrower indicates this is necessary, the file must contain verification that the employer was independently contacted and verified this requirement. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

Verbal Verification of Confirmation of Employment

A verbal verification to confirm the Borrower's current employment status is required for all Borrowers within 10 business days from the Mortgage Note date (or Funding Date for escrow states) for wage income and verification of the existence of the Borrower's business through a third-party source within 30 calendar days for self-employment income.

If the Borrower is in the military, a military leave and earnings statement dated within 30 calendar days of closing is acceptable in lieu of a verbal verification. Or a verification of employment through the defense Manpower datacenter (https://www.dmdc.osd.mil/appj/mla/).

If using a third-party service to verify employment (e.g. The WorkNumber, Quick Confirm, or LexisNexis) the following policy applies:

- Request to third party must be within 10 Business Days of the Mortgage Note date (or Funding Date for escrow states).
- Employment verification between employer and third party must be within 35 calendar days of the Mortgage Note date.

To comply with a verbal verification of employment (or telephone confirmation) requirement, independently obtain the phone number and address for the Borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook. com, Yellowpages.com, or similar directory, or by contacting the applicable licensing bureau.

Verbal Verification of Employment Requirements

A verbal verification of employment must contain the following information:

- Date of contact;
- Borrower's date of employment;
- Borrower's employment status and job title;
- Name, phone number, and title of individual contacted at entity;
- Name of the entity contacted;
- Name and title of associate contacting employer; and
- Method and source used to obtain the phone number.

Self-Employed Confirmation of Employment Requirements

Evidence that the Borrower has at least two consecutive years of self-employment operating the same business in the same location is required. Verification of Self-employed Borrower's must meet one of the following:

1) **Verification of the existence of the Borrower's business, completed via third party resources, such as:**
   a. CPA, regulatory agency, or the applicable licensing bureau, Secretary of State websites

2) **Verification of the listing and address for the Borrower's business using:**
   a. A telephone book, the internet, or directory assistance.

3) **If contact is made verbally with a third party, complete a processor certification with the following information:**
   a. The source of the information obtained, the name and title of associate confirming the information, state what the confirmed information is.

Tax Returns

The following standards apply when using personal tax returns to verify income:

Personal Tax Returns must be:

- Complete with all schedules and W-2s, 1099s, K-1 schedules, etc
- Signed and dated Borrower's copy filed with the IRS
- 1040 Tax transcripts may be used in lieu of signed/dated tax returns

Business Tax Returns must be:

- Complete with all schedules
- Signed and dated Borrower's copy filed with the IRS
  - 1040 Tax transcripts may be used in lieu of signed/dated tax returns

Year-to-date Profit and Loss and Balance Sheet

Required through the most recent 3-Month period preceding the application date for all business types

Amended Tax Returns:

Tax returns that are amended and filed by the Borrower with the IRS are acceptable in the following circumstances:

Tax Returns Filed Prior to the Mortgage Loan Application Date:

Tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the file was amended 60 days or less prior to the application, evidence of payment must also be provided

Tax Returns Filed After the Mortgage Loan Application Date:

Tax returns filed after the Mortgage Loan Application date may be acceptable when accompanied by the following:

- A letter of explanation regarding the reason for the re-file;
- Evidence of filing;
- Payment and the ability to pay the tax if the check has not been cancelled; and
- Confirmation that Borrower does not require use of amended income for qualification.

Closely examine the original tax return and the amended tax return for consistency with previous filings to determine whether the use of the amended return is warranted. If the Borrower requires the amended income for qualification, an exception must be submitted and approved for the use of the amended income. A copy of the original and amended tax returns must be submitted with the exception. When using an amended return after application, the underwriter must provide justification and commentary on the transmittal summary regarding its use.

Income Analysis Forms

The following income analysis forms are acceptable

- Spring EQ Income Calculator Tool
- Cash Flow Analysis (Fannie Mae Form 1084).
- Income Analysis (Freddie Mac Form 91).

Note income calculation comments on the transmittal summary (Fannie Mae Form 1008/Freddie Mac Form 1077) or similar form.

See Auto Allowances & Expense Account Payments section for treatment of these business expenses.

Income Types

Income types are defined as follows and detailed throughout this chapter:

- Wage Earners
- Bonus or Overtime
- Commission
- Self-Employed Income
- Rental Income

Wage Earner

Wage earners receive a consistent wage or salary from an employer in return for a service rendered and have less than 25 percent ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis.

If the Borrower's earnings are regular, use the monthly gross income to qualify. If a Borrower's hours fluctuate, average the past two years plus year-to-date earnings.

The following income documentation is required

- Verbal Verification of employment for current employer; AND
- (i)Full Written Verification of Employment including the year-to-date and prior two years earnings; **OR**
- (ii)Most recent paystub(s) and W2's for the most recent two years

****Written WVOE must be provided by a Spring EQ approved vendor****

Second Job or Multiple Job Employment

A Borrower must have at least two years, uninterrupted history on all second or multiple jobs in order to include the income for qualification purposes. If this income is received for less than two years, it may not be considered as qualifying income Compensating Factor only.

Income will be averaged over the past 24 months.

All of the following documentation is required:

- Verbal Verification of employment for current employer; AND
- (i)Full Written Verification of Employment including the year-to-date and prior two years earnings; **OR**
- (ii)Most recent paystub(s) and W2's for the most recent two years

****Written WVOE must be provided by a Spring EQ approved vendor****

Bonus or Overtime

Bonus or overtime income is compensation in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least two consecutive years.

All of the following income documentation is required:

- Verbal Verification of employment for current employer; AND
- (i)Full Written Verification of Employment including the year-to-date and prior two years earnings; **OR**
- (ii)Most recent paystub(s) and W2's for the most recent two years

****Written WVOE must be provided by a Spring EQ approved vendor****

Commission

Commission income is defined as a fee or percentage paid to an employee for performing a service and may be accepted as stable income if the income has been received for at least two consecutive years.

Originator must document that the income has been received for the past two years and validate from the employer that the commission income is likely to continue. If the income is unlikely to continue it may not be used in qualifying.

If commission income represents 25 percent or more of the Borrower's total annual income, document with all the following:

- Verbal Verification of employment for current employer; AND
- (i)Full Written Verification of Employment including the year-to-date and prior two years earnings; **OR**
- (ii)Most recent paystub(s) and W2's for the most recent two years
- Verbal verification of employment; and
- Tax transcripts for the most recent two years.

****Written WVOE must be provided by a Spring EQ approved vendor****

See Wage Earner section for Borrower(s) whose commission is less than 25 percent.

If it is more than 60 days from the date of the latest personal tax return, obtain a current paystub, W-2 or 1099 and confirm that current earnings support the income on the personal tax return.

This amount must be averaged over the most recent two years unless declining, and then the most recent 12 months will be averaged, deducting non-reimbursed business expenses as reported on IRS Form 2106.

For loans originated between January 1 and April 15: If the Borrower has not yet filed his or her prior year's personal tax return, determine if Alternative Documentation, including 1099s or W-2s from the previous year, is sufficient to document the commission income. Taking into consideration business expenses that are deducted from earnings, develop an average monthly net income for qualifying purposes. If the commission income on the paystub does not support the commission income reported on the IRS Form 1099 or W-2s from the prior year, adjust qualifying income accordingly.

Self-Employed Income

Self-Employed Income Analysis

A self-employed Borrower is an individual who has 25 percent or greater ownership interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, or individuals relying on investments as their primary source of income.

Evidence that the Borrower has at least two consecutive years of self-employment operating the same business in the same location is required to demonstrate income stability.
Self-employed Borrowers relocating to a different geographic area must document and explain the reasoning that their income will continue at the same level at the new location. Consider the acceptance of the company's service or products in the marketplace before considering the income for qualifying purposes. Document and explain how the Borrower's income will continue at the same level in the new location.

When a Borrower uses funds for down payment, closing costs or reserves (as applicable) from their self-employed business, the impact must be considered in the analysis of the business. See Assets chapter for more information.

A level or upward trend in earnings must be established. Significant increases could affect the stability of the Borrower's income and would require a satisfactory explanation and documentation that the increase is stable and likely to continue at the level. Significant decreases in income cannot be included in the average using a previous higher income level unless there is following documentation:

- A one-time occurrence prevented the Borrower from working or earning full income for a period of time.
- Proof that the Borrower is back to the income amount that they previously earned.

See Product Matrices for additional information for self-employment income requirements.

Documentation Requirements
All of the following income documentation is required:

- Most recent two years personal tax returns with all schedules;
- Most recent two years business income tax returns (with exception to sole proprietorships); and
- Year to date profit and loss statement and balance sheet required through the most recent quarter end.
    - Profit and Loss:
        - Must be consistent with prior year's earnings.
    - Balance Sheet:
        - Negative equity position is not permitted
        - This amount must be averaged based on the number of years tax returns required unless declining, and then the most recent 12 months will be averaged **See Product matrix for additional requirement for declining income

The underwriter may request additional information such as business license, profit and loss statement and/or balance sheet if it is necessary to further support the determination of the stability of the Borrower's income.

If any of the Borrowers on the loan transaction are self-employed and the self-employment income is not used to qualify, the first page of the most recent personal tax return must be obtained to determine whether there is a meaningful business loss. Additional documentation may be requested in order to fully evaluate the impact of the business loss on the income used for qualifying.

Depending on when the personal tax returns were filed, the documentation list above is required along with the following for all Mortgage Loan Applications.

Tax Transcript Requirement

Only the following scenarios will require tax transcripts:

All Transactions:

- 2020 Tax Transcripts are required, no exceptions
- Self Employed Borrowers
- Employed by Family Member
- Handwritten paystubs and W2's
- Underwriter discretion (where there are inconsistencies on the documents provided)

Wholesale transactions:

- Paystub/W2 to qualify:
    - If TWN hit, no transcripts required
    - If no TWN, W2 transcripts will be ordered

**Note for Self Employed transactions 2020 tax transcripts are required

Note: If borrower is less than 25% owner a 24month average of income can be used without full business returns, P&Ls or Balance Sheets. If showing income losses, they must be counted in qualifying income, but further documentation is not required.

Rental Income

Rental income for qualification purposes may be derived from one of the following sources:

- Mortgaged property
- Investment property (one-to-four-unit);
- Other REO Property; or
- Proposed rental income

When multiple sources of documentation are provided to verify rental income, the lowest calculated rental income will be used for qualification.

Short-term rental income from single-family residences in known vacation locations is acceptable income for investment properties. The Operating Income Statement is required. A short-term lease agreement is not acceptable documentation. Short-term/seasonal rental income from Second Homes cannot be used to qualify.

Treatment of Income

Any monthly net rental income must be added to the Borrower's total monthly income. Any net rental loss must be added to the Borrower's total monthly obligations

Rental Income Calculation and Documentation

If using personal tax returns to calculate net rental income (loss) , the Schedule E does not account for the full amount of the mortgage payment for the rental property. Any depreciation, interest, taxes, and insurance must be added back in the cash flow analysis before subtracting the PITIA payment, to avoid double-counting the expenses.

If using the lease agreement, net rental income is 75 percent of the gross rent from the lease agreements, with the remaining 25 percent being absorbed by vacancy losses and ongoing maintenance expenses. See the below table when calculating the net rental income (loss). For conversion of a primary home see product matrix for calculation and reserve requirement.

Length of ownership	Net Cash flow calculation	Documentation
Owner Occupied 2-4 Unit Property		
One or more complete tax years	24-month average from Schedule E	• Most recent two years personal tax returns (page 1, 2 and Schedule E) evidencing history of receiving rental income from subject property • Current Lease Agreement(s)
Rental Income from Other Real Estate Owned		
At least two complete tax years	24-month average from Schedule E *If less than 24 months but greater than 12 – average income over number of months rented	• Most recent two years personal tax returns (page 1, 2 and Schedule E) • Current Lease agreement(s)
Acquired property subsequent to filing personal tax returns	75% of gross rental income	• Fully executed lease agreement(s) • Cancelled rent checks for the lower of: ○ Most recent 3 months ○ Number of months available since lease inception
Conversion of a primary	75% of the gross rental income	• Fully Executed Lease agreement • Proof of receipt of security deposit • Evidence of 75% Equity position using recent appraisal or original purchase price • Note CLTV must be established using an appraisal w/thin the past 6 months or the original sales price to calculate

Other Income Sources

Other sources of income are described in detail below. If used to qualify the Borrower, document a history of regular receipt and the probability of continuance for at least three years.

- Alimony, Child Support and Maintenance Payments
- Auto Allowances and Expense Account Payments
- Capital Gains and Losses
- Employment by a Relative, Property Seller, or Real Estate Broker
- Foster Care Income
- Housing or Parsonage Allowance
- Interest and Dividend Income
- Military Income
- Non-taxable Income
- Note Income
- Permanent Disability
- Public Assistance
- Retirement, Pension, Annuity, and IRA Distributions

- Royalty Payments
- Seasonal Income
- Social Security Income
- Teachers
- Temporary Leave
- Tip and Gratuity Income
- Trust Income
- Unemployment Benefits Income
- Union Members
- VA Benefits
- Restricted Stock Units

Alimony, Child Support and Maintenance Payments

Alimony, child support and maintenance income will be considered when based on a divorce decree, court ordered separation agreement, court decree, or another legal agreement provided the payment terms confirm that the income will continue for at least three years. If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance.

When determining the acceptability of this income, the Borrower's regular receipt of the full payment due and any limitations on the continuance of the alimony (duration over which the alimony is required to be paid) must be taken into consideration. If a Borrower who is separated does not have a court order that specifies alimony, proposed or voluntary payments should not be considered as stable income.

Income may be considered stable with documentation evidencing that the Borrower has been receiving full, regular, and timely payments for the past twelve months. If the Borrower has been receiving full, regular, and timely payments for six to twelve months, the income may be used for qualification, as long as it does not represent more than 30 percent of the total gross income.

Income may not be considered stable when a Borrower has been receiving full, regular, and timely payments for less than six months or has been receiving full or partial payments on an inconsistent or sporadic basis. This income may be used as a Compensating Factor only.

One of the following types of income documentation is required:

- A copy of a written legal agreement or court decree describing the payment terms for the child support, the amount of the award and the period of time over which it will be received.
- Any applicable state law that mandates child support document, which must specify the conditions under which payments must be made.

In addition, one of the following is required to document regular receipt of the full payment based the number of months of the income is being used to qualify as described above:

- Court records;
- Most recent personal tax returns with all schedules;
- Bank statements or deposits slips showing regular deposit of funds; or
- Cancelled checks.

Auto Allowances and Expense Account Payments

Automobile allowances will be considered stable income for a Borrower who has been receiving the income for the past two years, provided all associated business expenditures are included in the calculation of the Borrower's total debt-to-income ratio.

Either an actual cash flow approach or an income and debt approach may be used to calculate the income.

Actual Cash Flow Approach

When the Borrower files an IRS Form 2106, the actual cash flow approach should be used. Any funds in excess of the Borrower's monthly expenses are added to the Borrower's monthly income.

When the Borrower uses IRS Form 2106 and recognized actual expenses instead of the standard mileage rate, look at the actual expenses section to identify the Borrower's actual lease payments, and then make the appropriate adjustments.

If a Borrower elected to use a standard mileage deduction instead of taking the actual cash expenditure for auto expenses when he or she completed their personal tax return, an add-back can be used for qualification purposes.

Income and Debt Approach

When the Borrower does not report the allowance on IRS Form 2106, the income and debt approach should be used. The full amount of the allowance is added to the Borrower's monthly income. The full amount of the lease or financing expenditure for the automobile must be added to the Borrower's total monthly obligations.

Capital Gains & Losses

A capital gain or loss is generally a one-time transaction; and, therefore, should not be considered as either a gain or loss in determining income. However, if the Borrower has a constant turnover of assets that produces regular gains and losses, the capital gain or loss may be considered (e.g., a person who buys old automobiles, restores them, and sells them for profit). If the Borrower has operated in this manner over a sustained period, an average of gains or losses may be developed, as long as the Borrower provides evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage payments.

Personal tax returns must be reviewed to get an accurate picture of the average earnings from this source. For example, an asset sold during the year might be an income-generating asset, resulting in a reduction in future income after the sale.

All of the following income documentation is required:

- A minimum of the most recent two years personal tax returns with all schedules. In some cases, additional years tax returns may be required.
- Evidence of ownership of additional property or assets

Employment by a Relative, Property Seller or Real Estate Broker

A Borrower employed by a family member or employed by a family-held business, property seller or real estate broker is eligible. If employed by a relative, the business accountant must verify that the Borrower is not self-employed by indicating his or her percentage of interest in the business.

Documentation may include but would not be limited to one of the following:

- Online source such as lexis nexis, or Government site that shows current owners
- CPA letter to verify no ownership
- Most Recent Personal Tax Returns

Foster Care Income

Foster care income may be considered acceptable if it is verified that the Borrower has a minimum two-year history of providing foster care services under a recognized state- or county-sponsored program and is likely to continue to provide such services.

One of the following types of income documentation is required:

- Letter from organization providing the income; or
- Copies of deposit slips or bank statements confirming regular payments
- 12 month history required.
- If less than 24 months, Foster Care income cannot be more than 30% of the total gross income.

Housing or Parsonage Allowance

A non-military housing or parsonage allowance may be considered qualifying income, if the income has been received for the most recent 12 months. The housing allowance may not be used to offset the monthly housing payment.

All of the following income documentation is required:

- Written verification of employment, letter from employer, or paystubs reflecting the amount of the housing or parsonage allowance;
- Terms under which the housing or parsonage allowance is paid; and
- Proof of receipt of housing allowance for most recent 12 months.

Interest & Dividend Income

A two-year average of interest and dividend income may be used to qualify if supported by sufficient assets after closing to support continuance of the interest or dividend income for at least three years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend and one of the following types of income documentation is required:

- Most recent two years personal tax returns with all schedules OR 1099's;
- Most recent 2 months personal bank statements; and

This amount must be averaged unless declining, and then the most recent 12 months will be averaged.

Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarters allowance and proficiency pay may be counted as income if they are verified as regular and continuous.

Reserves or National Guard

- **Not Called to Active Duty**

  Military reservists who have not been called to Active Duty may use their military reserve income to qualify, as long as they can provide a two-year history of receiving that income.

- **Called to Active Duty**

  If (i) one of the Borrowers is on Active Duty or has been called to Active Duty after the Mortgage Loan Application has been made, (ii) the Mortgage Loan is in process, and (iii) such Borrower wants to refinance his or her primary residence, which the family does not currently occupy, the Borrower must comply with the following:

  - The Borrower must certify that the subject property is his or her primary residence;
  - The subject property must be vacant, will remain vacant and will again be the Borrower's primary residence when the temporary assignment is completed;
  - The Borrower must certify that he or she will return to the subject property as his or her primary residence upon completion of the temporary assignment; and
  - The Borrower must provide documentation regarding the temporary assignment (orders supporting the assignment including duration).

Borrower Qualification

The Borrower must be qualified using the lesser of the following:

- Reservist pay; or
- Current job (or a combination of reservist pay, and current job pay i.e., current employer pays reservist his/her standard pay minus reservist income).

Non-Taxable Income

Generally, income is taxable unless it is specifically exempted by law. Non-taxable income may be shown on the Borrower's tax return but is not taxed. Verify and document that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the non-taxable status of the income.

If the income is verified as non-taxable, and the income and its tax-exempt status are likely to continue, develop an adjusted gross income for the Borrower by adding an amount equivalent to 25 percent of the nontaxable income to the Borrower's income.

Filing requirements for most taxpayers can be found on the IRS website.

Note Income

Ongoing revenue received from Mortgage Note income may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of three years is required.

Obtain a copy of the Mortgage Note documenting the amount, frequency and duration of payments.

One of the following types of income documentation must be provided for the most recent two years:

- Most recent personal tax returns with all schedules; or
- Bank statements showing regular deposits of funds.

Permanent Disability

Disability benefit payments (Social Security disability insurance benefits, maternity/parental benefits or Veterans disability compensation benefits, etc.) may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. A review date on a Social Security award letter for disability is not considered a defined expiration date. Confirm the Borrower's current eligibility for the disability benefits by obtaining a statement from the benefit's payer (insurance company, employer, or other qualified and disinterested party).

In cases where the income does not have a defined expiration date, the income may be considered stable, predictable, and likely to continue. The Borrower will not be required to provide additional documentation evidencing continuance of the income.

Public Assistance Program

Public Assistance (e.g., Temporary Assistance for Needy Families (TANF)) may be considered as acceptable income provided the income has been received for the last two years and is expected to continue for the next three years. See the Seasonal Unemployment section for details regarding the use of unemployment income.

All of the following income documentation is required:

- Letters or exhibits from the paying agency establishing the amount, frequency and duration of these payments; and
- Documentation of a two-year history of receipt of income.

Retirement, Pension, Annuity Income and IRA Distributions

Retirement and pension income may be used to qualify provided evidence of three years continuance of monthly annuity payment, 401(k), or IRA monthly distribution is documented. Evidence of continuance of corporate and state government pension income required. Military retirement/pension and federal government pension need not be documented.

One of the following types of income documentation is required:

- Current letters from the organizations providing the income; OR
- Most recent year 1099; OR
- Most recent personal income tax returns with all schedules; OR
- Proof of current receipt. This can be verified with current statement or bank statement

- Regardless of documentation type used, verification that income will continue for 3 years
    - CALPERS/VA/Office of personnel management/Department of defense does not require documentation to show continuance

**NOTE: IRA distributions must have history for a minimum of 60 days prior to the application date to be eligible to use as qualifying income

Royalty Payments

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of three years is required. Due to fluctuating payments, income will be averaged over two years, based on the following income documentation is required:

- Most recent two years personal tax returns with all schedules, including the related Supplemental Income and Loss Schedule (Schedule E); and
- Evidence of receipt of at least 12 months must be documented.

Seasonal Income

Seasonal part-time or seasonal second job employment may be acceptable if the Borrower has worked the for the same job for a minimum of 2 years. Due to these fluctuations, income will be averaged over the past two years based on all of the following income documentation:

- Most recent paystub(s), if available;
- Most recent two years W-2s or personal tax returns with all schedules; and
- Written confirmation from the Borrower's employer that there is a reasonable expectation that the Borrower will be rehired for the next season.

If income received cannot meet these requirements, it should only be considered a Compensating Factor.

Social Security Income

Social Security income may be used to qualify with documented evidence of three years continuance of survivor and supplemental payments. If the benefits have a defined expiration date, confirm that the remaining term is at least three years from the application date and that the income will not diminish for any reason.

Evidence of continuance of Social Security retirement income need not be documented.

- Current letters from the organizations providing the income; OR
- Most recent year 1099; OR
- Most recent personal income tax returns with all schedules; OR
- Proof of current receipt. This can be verified with current statement or bank statement

Teachers

When a Borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year if the payout is not clear or average the income based on the most recent W-2 over 12 months. Stipends or supplemental income must be documented as regular and continuous.

For teacher income paid over a 10-month period and obtaining financing during the summer months when income is not being received, the following documentation is required:

- Final year-end paystub from the school
- Verbal verification of employment; and
- Copy of fully executed, guaranteed contract, with no contingencies, indicating that the Borrower is paid over a 10-month period

Qualify the Borrower based on the income received on the final year-end paystub.

Temporary Leave

Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for loan qualification. Leave ceases being temporary when the Borrower does not intend to return to their current employer or does not have a commitment from the current employer to return to employment.

If a Borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the Borrower has the capacity to repay the mortgage and all other monthly obligations.

Return to work prior to the loan closing date

Use the regular employment income that was received prior to leave

Documentation requirements:

- Letter of intent to return to work from borrower
- Verification of date of return and confirmation that the borrower will be employed at the same rate prior to leave from the employer

Return to Work after First Mortgage Payment is NOT Permitted

Tip and Gratuity Income

Tip or gratuity income is considered compensation in addition to an employee's regular wages. An average of the tip income may be used to qualify if the Borrower has received it for the last two years and it is likely to continue.

All of the following income documentation is required:

- Current paystub(s);
- Most recent two years W-2s; and

Trust Income

Confirm trust income and its continuance for at least three years by obtaining a copy of the trust agreement or trustee statement to document the following:

- Total amount of designated trust funds;
- Terms of payment;
- Duration of trust; and
- What portion, if any, of income to Borrower is not taxable.

A Borrower's trust income may be taxed at a lower rate or it may be part of a partnership that writes off losses, which may result in no tax liability. Trust income is reported on the 1041 fiduciary income tax return, which includes a K-1 schedule. All beneficiaries of trust income receive IRS Form K-1 from the trust.

Unemployment Benefits

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years and is predictable and likely to continue. Due to fluctuations in income, this amount will be averaged over the past two years based on all of the following income documentation:

- Most recent two years personal tax returns with all schedules;

**Income must be clearly associated with seasonal layoffs and expected to recur.

Union Members

Union members may hold several jobs during a year. Verification of income for a union member requires all of the following documentation:

- Verbal verification of employment from union confirming:
  - Borrower is in good standing with union; and
  - Borrower is employed by same employer issuing paystub and income used for qualification. If the union cannot provide confirmation, a verbal verification of employment with present employer is required.

- Current paystub(s) from present employer. If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings.
- Most recent two years personal tax returns with all schedules and all W-2s.

Due to fluctuations in income, income will be averaged over the past 24 months, unless the income has declined and then the most recent 12 months will be averaged.

VA Benefits

Copy of award letter to verify the amount of payment received

Restricted Stock Units:

- May only be used as qualifying income if the income has been consistently received for two (2) years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior two (2)years.
- A two (2) year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent twelve (12) months

reporting at the time of application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.

- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.

Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to the following:

- Future income;
- Foreign income;
- Income derived from sources outside the United States;
- Income derived from the subject property with land being leased to another party;
- Income derived from farm income when the property is being used for a specific purpose, such as a vineyard or bottling barns;
- Income derived from gambling;
- Income determined to be temporary or one-time in nature;
- Lump sum payments such as inheritances or lawsuit settlements;
- Lump sum payments of lottery earnings that are not on-going;
- Mortgage credit certificates;
- Non-incidental income received from farming/agricultural use of a property;
- Rental income received from the Borrower's single family primary residence or Second Home;
- Retained earnings in a company;
- Stock options;
- Taxable forms of income not declared on personal tax returns;
- Trailing Co-Borrower income;
- Unverifiable income; or
- VA education benefits.

Appraisal Types

Appraisal Type:

Refer to the product matrix for specific appraisal product requirements.

Regardless of type, each appraisal will provide the detail to evaluate the following:

- Adequate support for the value of the Mortgaged Property;
- Present and future marketability of the Mortgaged Property
- Completeness and correctness of the appraisal forms and exhibits;
- Applicability and timeliness of data used to determine marketability;
- Consistency, logic and accuracy of the appraisal

Unacceptable Appraisal Practice

The following are examples of unacceptable appraisal practices:

- Development of a valuation conclusion based either partially or completely on the race, color or national origin of either the prospective owners or occupants of the Mortgaged Property or of the present owners or occupants of the properties in the vicinity of the Mortgaged Property.
- Development and/or reporting an opinion of market value that is not supportable by market data or is misleading.
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited.
- Misrepresentation of the physical characteristics of the Mortgaged Property, improvements, or comparable sales.
- Failure to comment on negative factors with respect to the subject neighborhood, Mortgaged Property, or proximity of the Mortgaged Property to adverse influences.
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the Mortgaged Property and the prior sales of the Mortgaged Property and the comparable sales.
- Selection and use of inappropriate comparable sales.
- Failure to use comparable sales that are locationally and physically similar to the Mortgaged Property.
- Creation or use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property.
- Use of adjustments to the comparable sales not reflective of the market's reaction to the differences between the Mortgaged Property and the comparable sales.
- Not supporting adjustments in the sales comparison approach.
- Failure to make adjustments when they are clearly indicated.
- Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the Mortgaged Property without the appraiser's verification of the information from a disinterested source.
- Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the Originator or any related party, the amount of the opinion of value, the attainment of a

specific result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments.

- Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of
Professional Appraisal Practice in place as the effective date of the appraisal.
- Failure to address and note adverse factors or conditions that affect value or marketability with respect to the neighborhood, site, or improvements.
- Use of unsupported descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect.
- Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect and may or may not affect the use and value of a property.
- Use of unacceptable terminology including but not limited to:

    - "Pride of ownership, no pride of ownership, and lack of pride of ownership;
    - Poor neighborhood;
    - Good neighborhood
    - Crime-ridden area;
    - Desirable neighborhood or location; and
    - Undesirable neighborhood or location."

Other subjective terminology that can result in erroneous conclusions is equally unacceptable.

Appraisal Review

The appraisal information must provide a logical basis for evaluation. The appraiser must present a concise picture of the neighborhood, site, and improvements to support an indicated value. Value must be supported by three comparable sales of a similar nature. The sales comparison approach must adequately support the estimate of market value. Originator must determine that the appraiser has adequately supported his or her opinion of the Mortgaged Property's value.

When reviewing the appraisal; the underwriter completes an analysis including, but not limited to

- The appraisal report to ensure that the report is of professional quality and is prepared in a way that is consistent with Spring EQ's appraisal standards.
- The Mortgaged Property based on the appraisal.
- The Mortgaged Property's acceptability as security for the Mortgage requested in view of its value and marketability.
- The current offering or listing for sale, if applicable.
- The current ownership for the Mortgaged Property
- The sale or transfer history of the Mortgaged Property, and comparable sales
- The sales of the Mortgaged Property and the sales price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market

Minimum requirements:

- Q5 quality rating
- C5 Condition Rating
- No more than 10 Acre lot
- Not listed for sale within the past 12 months

Replacement Cost Estimation – If hazard insurance coverage is insufficient and full appraisal was used to verify value, the Cost Approach section of the appraisal can be used to verify replacement cost. Take the HIGHER value of

- **The appraised value minus the site value or**
- **The replacement cost value**