SKY

TPO

UNDERWRITING GUIDELINES

Underwriting Guidelines

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OVERVIEW

Non-QM Lending Guidelines

Non-QM guidelines are designed to help users make prudent lending decisions for borrowers who may not have access to traditional lending options. The primary objective is to prioritize practical approaches that thoroughly assess the borrower's ability to repay, while also considering compensating factors that can help mitigate potential risks. These compensating factors might include alternative indicators of financial stability, such as a consistent employment record, established savings patterns, or a strong payment history for non-traditional credit obligations.

Each loan approval must clearly demonstrate the borrower's capacity to repay, supported by documented evidence and sound judgment. This ensures that every decision made is aligned with responsible lending practices. By finding the right balance between risk and compensating factors, Sky TPO aims to provide fair and equitable opportunities for underserved borrowers, while upholding the integrity of established lending standards.

Eligibility for Non-QM Programs

Loans that are eligible for sale to a Government Sponsored Entity, specifically, the Federal National Mortgage Association ("Fannie Mae" or "FNMA") or the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") are not eligible for Non-QM programs. Only loans that do not meet these agencies' criteria should be considered under the Non-QM guidelines.

Guideline Reference and Deference

If a specific guideline is not addressed within these guides, users should refer to the **Fannie Mae Guidelines.**

Assumability

Loans are not assumable.

GUIDELINES AND MATRICES

For the most up to date matrix and guideline documentation, visit:

Forms & Guidelines

All files are manually underwritten.

PRICING RELATED PRODUCT ELIGIBILITY & QUALIFYING RATES

Product Eligibility

- Fully amortizing options per program matrices
- Interest-only permitted per program matrices (NOO only)

    - IO Term: Fixed period or ARM IO (per program matrices); remaining term amortized over 20 or 30-year period

- Amortization Terms: 15-Year, 30-year or 40-year (per program matrices)

Qualifying Rate

- **Fixed:** Qualify at note rate
- **ARM:**
    - O/O & Second Home: Higher of start rate or fully indexed rate
    - Investment: Start rate

Prepayment Penalty

Where permitted by applicable laws and regulations, a prepayment charge can be structured for 6 months and up to 5 years following the execution date of the Promissory Note. (Refer to matrices)

COMPLIANCE

Residual Income

Residual Income is the amount of monthly income remaining after a borrower has paid all required monthly obligations. It is used to evaluate the borrower's ability to meet living expenses after satisfying debt obligations and is a supplemental measure to traditional ratios such as DTI.

Residual Income is calculated as:

Residual Income = Gross Monthly Income − Total Monthly Obligations

Federal and State Restrictions

Federal, State, And Local High-Cost Loans

- Consumer Purpose Owner Occupied Federal High-Cost (Section 32) is not permitted
- Consumer Purpose Higher Priced Mortgage Loans (Section 35) are permitted with required impound account and/or meeting appraisal flip provisions and appraisal delivery requirements
- Federal High-Cost (Section 32) does not apply to Consumer Purpose Second Homes or Business Purpose Loans
- Federal Higher Priced Mortgage Loan (Section 35) does not apply to Business Purpose Loans
- State and Local High-Cost Loans are not permitted on any Consumer Purpose or Business Purpose Loans
- Business Purpose Local High-Cost Thresholds include but are not limited to, Cook County, IL, City of Chicago, IL.

State Licensing

State Licensing

See the Approved List for a complete list of state licensing.

State-Specific Restrictions-Consumer Loans

Iowa

- Minimum loan amount: **$125,000**

TEXAS –REFINANCE REQUIREMENTS

Texas rate and term refinance transactions for primary residences restrict the cash back to borrower to $0.00. The borrower may not receive any proceeds on an owner-occupied refinance, unless proceeding under the TX50(a)(6) cash out refinance.

Texas cash-out refinance primary residence transactions are subject to Texas Constitution Section 50(a)(6) In order to be eligible for a Cash Out refinance, the subject property must be the borrower's homestead (primary residence), as reflected on their tax bill.

A borrower may have only one homestead, which is considered their primary residence. Texas 50(a)(6) requirements do not apply to cash-out refinance transactions secured by Second Homes or Investment Properties, provided the subject property is not the borrower's homestead.

If a borrower does not own a primary residence in the State of Texas, additional legal review may be required to confirm the subject property is not considered the borrower's homestead and is therefore not subject to Texas 50(a)(6) restrictions.

Texas Owner-Occupied Cash-Out 50(A)(6) Requirements

Applies only to cash-out refinance transactions secured by the borrower's primary residence (homestead).

- Eligible only on 1-unit primary residences, including:
  - Single-Family Residences (SFR)
  - Attached dwellings
  - PUDs
  - Condominiums
- 12-Day Disclosure (Notice of Extension of Credit) must be signed by all vested parties; loan may not fund until the 12-business-day waiting period has elapsed
- Maximum LTV/CLTV: 80%
- Total fees may not exceed 2.00%
- 12-month seasoning required from the date the Home Equity Mortgage is signed to the date of the Note (no exceptions)
- Survey required for all Texas 50(a)(6) transactions (may not be waived)
- Texas attorney review required; attorney must provide an Attorney Opinion Letter confirming compliance with Texas Constitution Section 50(a)(6)
- All title owners must be borrowers.
- Non-Occupying co-borrowers are not permitted.

Texas Owner-Occupied Cash-Out (50(a)(6)) Ineligible

- Leasehold properties
- Properties exceeding 10 acres
    - If borrower owns adjoining land, documentation (e.g., survey) must confirm the homestead parcel does not exceed 10 acres
- Subordinate financing
- Non-owner-occupied transactions
- Power of Attorney (POA)

Texas Non-Owner-Occupied Refinance (Second Home / Investment Property)

Rate and Term and Cash-out refinance transactions secured by Second Homes or Investment Properties are permitted in Texas and are not subject to Texas Constitution Section 50(a)(6), provided the property is not the borrower's homestead.

These transactions must meet standard program eligibility requirements and may be subject to legal review when homestead status cannot be clearly established. Follow matrices for maximum cash back.

New York CEMA – Non-Owner Refinance Only

CEMA Refinances are permissible on Business Purpose transactions in NY. NY CEMA purchases are not permissible. Follow New York CEMA Job Aid.

Net Tangible Benefit (NTB)

In keeping with the commitment of responsible lending, all primary residence and second home consumer refinance transactions must have a measurable benefit to the borrower for rate and term refinance and cash out transactions.

When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Refinancing from ARM to fixed rate

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

Files must contain documentation supporting the acceptable benefit.

- Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage.

A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower loses one or more of the benefits of the special mortgage, then both of the following apply:

- Sky TPO must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Sky TPO must take special care to ensure a net tangible benefit to the borrower

Interest Credit Closings

Loans closed within the first 5 days of the month may reflect interest credit to the borrower.

GENERAL INFORMATION

Eligible Programs

Consumer

Primary Residence

- Full Doc (Sunny)
- Alt-Doc (Suny)
- ITIN Full/Alt-Doc (Sunny)

Second Home

- Full Doc (Sunny)
- Alt-Doc (Sunny)
- ITIN Full/Alt-Doc (Sunny)
- Foreign National Full/Alt- Doc (Passport)

Business Purpose

Investment

- Full/Alt-Doc (Breezy)
- DSCR | 1-4 Unit (Breezy)
- Foreign National DSCR (Passport)
- DSCR | 5-8 Unit (Breezy)
- ITIN DSCR (Breezy)

TRANSACTION TYPES

Purchase

- Proceeds from the transaction are used to finance the acquisition of the subject property
- LTV/CLTV is based on the lesser of the sales price or appraised value

Rate & Term Refinance

- Proceeds may be used to pay off the existing first mortgage and any subordinate financing used to acquire the property
- Subordinate financing not used for acquisition may be included if:
    - It is a closed end loan, **or** end loan
    - It is a HELOC with at least 12 months seasoning and less than $10,000 in total draws over the most recent 12 months
- Permitted for buying out a co-owner under a written agreement
- Permitted for paying off an installment land contract executed more than 12 months prior to the Loan Application date
- Cash back permitted up to the lesser of 2% of the new loan amount or $10,000
    - Not applicable to Owner Occupied refinances in Texas. See Texas Refinance section.
- Debt consolidation permitted for Primary and Second Home
    - Debts must be paid off at closing and shown on the Final Closing Disclosure
- LTV/CLTV is based on the current appraised value; no seasoning required
- One borrower must be on title at the time of application

Cash Out Refinance

See Sky TPO matrices for maximum cash-out limits.

- Any refinance that does not meet the definition of a rate/term refinance
- No seasoning requirements
- LTV/CLTV based on current appraised value; no seasoning required
- A mortgage secured by a property owned free and clear is considered cash-out
- Paying off delinquent real estate taxes, federal or state taxes, and judgments (60+ days past due) is considered cash-out
- Borrower must indicate the purpose of cash-out proceeds
- Properties listed for sale must be removed from the market prior to the closing
- One borrower must be on title at the time of application

Business Purpose Loans: Paying off consumer debt is not eligible

Delayed Financing

Cash-out on properties purchased with cash and owned less than 6 months is permitted. Delayed financing within 6 months of the original purchase is allowed with the following restrictions:

- The new loan amount may not exceed the borrower's documented initial investment plus closing costs, prepaid fees, and points, and is subject to maximum LTV/CLTV/HCLTV requirements based on the lower of the original purchase price or current appraised value
- Rate/Term pricing and matrix applies.
- Rate/Term cash in hand restriction does not apply

Required documentation:

- No mortgage financing was used to obtain the property; Unless it was a hard money mortgage loan. A hard money mortgage loan may be paid off with a copy of the Promissory Note
- Settlement statement (or recorded trustee's deed/equivalent) confirms no mortgage financing was used, does not apply to hard money mortgage loan
- Preliminary title search/report confirms no existing liens on the property, does not apply to hard money mortgage loan
- Sources of funds used to purchase the property must be documented (e.g., gifts, bank statements, personal loan documents, HELOC on another property, Other REO proceeds)

Additional requirements:

- If funds used for purchase came from an unsecured loan or a loan secured by another asset (e.g., a Mortgage or HELOC on another property), the refinance closing statement must show cash-out proceeds were used to pay off or pay down that loan
- If proceeds from the sale of other REO were used, obtain the final settlement statement for REO and document transfer of funds to subject property purchase
    - Any remaining payments on the original loan must be included in DTI

BORROWER ELIGIBILITY

Borrower Type

- **Primary Borrower** – The first borrower listed on the application, or the borrower who holds the majority ownership interest in the entity in which the loan will be closed
- **Co-Borrower** – Any additional borrower jointly responsible for repayment along with the primary borrower

Borrower Identification

All borrowers must provide the following for identity verification:

- A non-expired government issued photo ID
- Non-U.S. citizens must refer to applicable Non-Permanent Resident, Permanent Resident, ITIN, or Foreign National guidelines.

For Complete List of Required Identification, Refer To:

- Exhibit A – Non-Permanent Resident Alien
- Exhibit B – Foreign Nationals

First Time Home Buyer

A first-time home buyer is an individual who has not held any ownership interest in a property within the past three years. First-time home buyers are eligible under all programs **except for** the **DSCR 5–8 Unit** program.

Residency

Eligible

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien
- Foreign National
- ITIN Borrowers

Ineligible Borrowers / Participants

- Individuals with diplomatic immunity or otherwise exempt from U.S. jurisdiction
- Borrowers from OFAC-sanctioned countries
- Borrowers on OFAC list
- Residents of countries prohibited from transacting with U.S. companies (as determined by U.S. authorities)
- Any party listed on exclusionary lists such as HUD's LDP, GSA Excluded Party List, Sky TPO Do Not Lend or similar
- Borrowers under 18 years old
- Trusts or land trusts (revocable trusts may be permitted for vesting only)

Exclusionary List | OFAC | Diplomatic Immunity

- All parties involved in the transaction must be screened against the required exclusionary lists.
- Lenders must apply their exclusionary list policy to all loans originated under these guidelines.
- All parties must be cleared through OFAC's Specially Designated Nationals (SDN) List: https://sanctionssearch.ofac.treas.gov/
- Borrowers from OFAC-sanctioned countries are ineligible. A list of sanctioned countries is available at: http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx
- Individuals with diplomatic immunity are ineligible due to the inability to enforce repayment. Verification may be obtained using the borrower's visa, passport, or the U.S. Department of State's Diplomatic List: http://www.state.gov/s/cpr/rls/

Citizenship & Immigration Status

U.S. Citizen

- U.S. citizens are eligible for financing.
- Provide an unexpired government issued photo identification card with signature.
- If the credit report reflects a variation of the borrower's Social Security Number (SSN), an SSA-89 form must be completed and returned with passing results.

Permanent Resident Alien

Permanent resident aliens are eligible for financing. A permanent resident alien is a non-U.S. citizen authorized to live and work in the United States on a permanent basis.

Acceptable evidence of lawful permanent residency includes:

- I-151 – Permanent Resident Card (no expiration date).
- I-551 – Permanent Resident Card valid for 10 years (unexpired).
- I-551 – Conditional Permanent Resident Card valid for 2 years, accompanied by Form I-751 (petition to remove conditions).
- An unexpired foreign passport with an unexpired I-551 temporary evidence stamp stating: *"Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yyyy. Employment Authorized."*

Non-Permanent Resident Alien

A non-permanent resident alien is a non-U.S. citizen authorized to live and work in the United States on a temporary basis. They are admitted as lawful temporary residents.

Eligibility Notes:

- Must have a valid Social Security Number
- Must have current, verifiable immigration status

Acceptable documentation includes:

- A **valid Employment Authorization Document (EAD)** identifying immigration program/classification
- If status is unclear, the underwriter may request **Form I-797** for verification.
    - Other documentation showing current immigration status (e.g., valid work visa.)

Expiration Requirements:

- All documentation must be valid on the note date.
- If a document is expired as of the note date, the borrower may provide proof of timely renewal (e.g., agency filing receipt or case confirmation letter).

Ineligible:

- Individuals with diplomatic immunity due to the inability to compel repayment or seek judgment.

Reference:
See **Exhibit A – Non-Permanent Resident Aliens** for acceptable EAD and visa classifications.

GENERAL REQUIREMENTS

Qualifying Payment

Qualifying payment will be based on the qualifying rate. Interest only uses ITIA.

Limitations on Financed Properties/Exposure

Sky TPO's exposure may not exceed $10 million aggregate with a maximum of 10 loans for each individual borrower.

EXCEPTIONS TO THIS POLICY WILL BE REVIEWED ON A CASE-BY-CASE BASIS.

Age of Documents

Not More Than 10 Days from Promissory Note Date

- Debt monitoring/credit refresh/LQCC
- VVOE (Verbal Verification of Employment)
    - **Wage Earners:** 10 calendar days

Not More Than 30 Days from Promissory Note Date

- CPA Letter/Acceptable Third Party
- Self-Employment validation documents

Not More Than 90 Days from Promissory Note Date

- Income documentation
- Asset documentation
- Title Commitment/Preliminary Title Report/Binder
- Closing Protection Letter (CPL)

Not More Than 120 Days from Promissory Note Date

- Appraisal Report (180 days with recertification of value; recert not permitted on commercial narrative reports)
- Flood certificate
- Credit report

Escrows | Impound Accounts

Borrowers must establish initial and monthly escrows for taxes, hazard insurance, flood insurance (if applicable), and HO-6 (if applicable), unless otherwise required by state law or specific program provisions.

Program Requirements

- **Full/Alt-Doc (Sunny & Breezy):** Required when LTV > 80%
- **ITIN Alt-Doc (Sunny):** Required when LTV > 80%
- **DSCR 1–4 Units (Breezy):** Not Required
- **DSCR 5–8 Units (Breezy):** Not Required
- **ITIN DSCR (Breezy):** Not Required
- **Foreign National (Passport):** Escrows required on all loans

Impounds Always Required

- Higher Priced Mortgage Loans - Consumer Purpose (must impound property taxes and insurance)
- Property is located in a Flood Zone requiring Flood Insurance (must impound flood insurance)
- Any loan with LTV > 80% (must impound property taxes and insurance)

Properties Listed for Sale - Refinances

Properties listed for sale at the time of application are eligible. The subject property must be taken off the market prior to closing. When listed at the time of application, the borrower must confirm in writing the reason for the listing, and proof it was taken off the market. If the property listing was removed prior to the application date, no further documentation will be required.

Properties listed within 3 months of the Final Approval Date will have the LTV based on the lower of the lowest list price, or the current appraised value.

Example: Subject property listed on 8/1 for $500,000, on 8/20 price was lowered to $480,000, on 8/30 the property was delisted. On 9/1 property was relisted at $499,000; loan has final approval on 10/20. Appraised value is $485,000 but lowest list price within 3 months is $480,000. LTV is based on $480,000.

If the appraisal reflects improvements completed after the listing was removed, the new appraised value can be used.

Requirements for all Non-Arm's Length Transactions

- Full disclosure of the relationship
- Borrower must provide written explanation of relationship and reason for purchase
- Copy of canceled earnest money check made payable to seller
- Employer-to-employee transactions not permitted
- No occupancy concerns may exist
- All liens on title must be paid in full and shown on the settlement statement
- LTV calculated using the lesser of sales price or current appraised value
- Borrower may not provide services in the transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of the entity selling the property (unless buying out a co-owner)
- Borrower may not be affiliated with the subject property lien holder
- Buyer representing themselves as the real estate agent is permitted
- Seller representing themselves as the real estate agent is permitted
- Renters purchasing from landlord must provide the most recent 12 months of rental payment history and a copy of the lease
- Property trades between buyer and seller are not permitted

Note: Commission earned by buyer/borrower cannot be used for down payment or reserves but can be treated as interested party contributions up to a 3% maximum not to exceed standard interested party contributions limits.

ADDITIONAL REQUIREMENTS — FAMILY SALES

- Seller's mortgage payment history (past 12 months) must show no pattern of delinquency (if applicable)
- Verification that borrower has not been on title in the past 24 months
- Gift of equity permitted only for primary occupancy

Note: New construction is not permitted for non-arm's length transactions.

Interested Party Transaction/Conflict-of-Interest Transactions

A conflict-of-interest transaction occurs when the borrower has an affiliation or relationship with the mortgage broker, loan officer, real estate broker or agent, or any other interested party to the transaction. When such relationship exists, extra due diligence must be exercised. For example, the seller's real estate agent for the subject property may not act as the loan officer for the borrower(s) purchasing the same subject property. An examination of the relationship between the mortgage broker, title/escrow companies, appraiser, and any other party to the transaction must be closely examined. A letter of explanation regarding the relationship between the parties is required.

Inherited Properties and Property Buyouts

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired less than 12 months prior to loan closing, the transaction is considered a cash-out.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through settlement
- Subject property has cleared probate, and property is vested in the borrower's name
- Current appraised value is used to determine LTV

Purchase/Sale Contract

A purchase money transaction must include a fully executed agreement of sale and counteroffer (if applicable) reflecting the following:

- Borrower as the purchaser of the property (borrowers/purchasers reflected as "or assignee" is not allowed)
- Seller as the vested owner on title
- Correct address of the property
- Correct sales price
- Amount of down payment
- Closing dates
- Concessions and seller contributions

- Any addenda as noted to be part of the purchase contract

Lease with Purchase Option

A Lease Option to Purchase allows a borrower to lease a property for a set period, with a portion of rent above market rate credited toward the down payment. This structure may also be used for **Land Contract** or **Contract for Deed** transactions.

General Requirements

- All parties must sign the Lease Option Agreement
    - Agreement must state option period, earnest money amount, and rent terms
- Monthly rent terms must specify the portion **above fair market rent** that will be credited toward the down payment
    - Fair market rent must be supported by 1007/1025
- Proof of earnest money (canceled check) required
- Copies of canceled rent checks (front & back) for the most recent 12 months required
- Must comply with Non-Arm's Length Transaction requirements (if applicable)
- Is considered a Purchase Transaction. Refinances are not permitted.
- Is Owner Occupied

Important Note:
Lease option transactions without an earnest money deposit or documented "sweat equity" (receipts for materials and proof of improvements), and rent paid above market do not qualify as Lease Option to Purchase transactions and must follow standard purchase guidelines.

LTV DETERMINATION FOR LEASE OPTION PURCHASES

A Lease Option is always treated as a **purchase transaction**, requiring issuance of a **purchase LE and CD**.

LTV based on lesser of purchase price or appraised value when:

- Earnest money deposit is less than 3% of the sales price, or
- Lease Option Agreement was executed within the past 12 months

LTV based on current reconciled market value when:

- Borrower has occupied the property for the past 12-months; and
- Lease Option Agreement was executed more than 12-months ago; and
- Borrower has ≥ 3% of the sales price invested through:
    - Earnest money deposit, **or**
    - Documented sweat equity (receipts for materials + list of improvements and time to completion)

Interested Party Contributions

FOLLOW FANNIE MAE; https://selling-guide.fanniemae.com/sel/b3-4.1-02/interested-party-contributions-ipcs

MAXIMUM CONTRIBUTION LIMIT: SEE MATRICES

Flip Transactions

A “flip” occurs when the seller acquired the property within **180 days** of resale **and** the sales price has increased by **more than 10%**.

(The 180-day period is measured from the date the seller became the legal owner to the date the Purchase Agreement was executed.)

Flip Requirements

- Arm's length transaction; no identity of interest among buyer, seller, or related parties
- No pattern of flipping activity in past 12 months
    - Exceptions may include new construction, sales by government agencies, inherited/divorce transfers, and REO sales (case-by-case)
- Property must be openly and fairly marketed (MLS, auction, FSBO with documentation, or developer marketing)
- No assignment of contract permitted
- If purchase price exceeds appraised value by more than **5%**, a borrower **letter of acknowledgment** is required
- Documentation required to support actual cost of construction/renovation (contracts, plans, invoices, receipts, lien waivers, etc.)
    - Evidence of construction / renovation is not required for properties sold at auction, or documented sale below market, with a maximum appraised value of $1,000,000.

Flip Requirements for Higher Priced Mortgage Loan - Owner-Occupied Purchase Transactions

(**Second Appraisal Requirement**)
A second appraisal **from a Sky TPO-approved AMC** is required**.**

- Seller acquired property ≤ 90 days before resale and purchase price is > 10% above seller’s acquisition price
- Seller acquired property 91−180 days before resale and purchase price is > 20% above seller’s acquisition price
- Second appraisal must be completed and received no less than 3 business days prior to the Promissory Note date
- Cost of second appraisal may not be passed to the borrower

Timing Note:
Timelines are measured from the date the seller became legal owner to the date the Purchase Agreement was

fully executed.

Permanent Financing for New Construction (Construction-To-Perm)

- Construction-to-permanent (or construction-to-perm) financing converts interim construction financing into a long-term transaction. Borrower must hold title to the lot (either previously acquired or purchased as part of the transaction).
- For refinance transactions, borrower must have held legal title to the lot **before** obtaining the construction financing and must be the named borrower on the construction loan
- Construction-to-perm may be closed as **rate/term** or **cash-out.** All construction work must be complete.

LTV Determination:

- Lots owned ≥ 12 months from application date: LTV based on current appraised value
- Lots owned < 12 months from application date: LTV based on the lesser of the current appraised value or total acquisition cost (construction cost + lot purchase price)

Secondary Financing

SECONDARY/SUBORDINATE FINANCING

- Secondary financing permitted up to max CLTV = program max LTV
- Financing must be institutional (no private party; no seller carrybacks)
- Existing subordinate liens must be subordinated and recorded or refinanced
- HELOC: HCLTV calculated using full line amount, unless documentation confirms line is past draw period

NEW SECONDARY/SUBORDINATE FINANCING

- Loan approval + repayment terms
- Subordination agreement (unsigned – prior to closing) must reflect first lien final loan amount
- Executed subordination agreement (at closing) must reflect first lien final loan amount
- Executed Promissory Note (at closing)

EXISTING SECONDARY/SUBORDINATE FINANCING

- Repayment terms of existing second lien
- Subordination agreement (unsigned – prior to closing) must reflect first lien final loan amount
- Executed subordination agreement (at closing) must reflect first lien final loan amount

ALL SUBORDINATE LIENS

- Seller-held subordinate liens not permitted
- Must be recorded and clearly subordinate to new mortgage
- Payment included in DTI or DSCR; if unknown, use 1.5% of original balance
- HELOC CLTV/HCLTV uses total line limit, plus any additional subordinate financing
- No negative amortization: payments must cover at least interest due
- Employer provided financing cannot require payoff upon employment termination

- **Max HCLTV = max LTV** allowed for transaction

Home Equity Line of Credit (HELOC)

- Property must be owner occupied
- CLTV must be calculated using the total usable HELOC (TLTV)
- A copy of the Promissory Note for the HELOC must be obtained to determine the payment based on the interest rate in effect for the HELOC on the date that the loan application is underwritten

CREDIT

Credit Score and Report Requirements

A tri-merge credit report is required and combines credit data and scores from the three major U.S. credit bureaus Experian, Equifax, and TransUnion. The tri-merge credit report must be pulled by the Broker Company or by Sky TPO.

At least one borrower (primary wage earner) must have a valid score from at least 2 of the 3 credit bureaus:

- Experian
- TransUnion
- Equifax

ONLY SCORES FROM THESE CREDIT BUREAUS ARE ACCEPTABLE.

A valid credit score is defined as a representative, verifiable score generated by one or more of the three major U.S. credit bureaus as shown above and is based on the borrower's individual credit history and established active credit trade lines. A credit account would need to be reported for at least 3 months before it is considered established.

- The applicable credit score is the middle of three scores provided for any borrower. If only two credit scores are obtained, the higher of two will be used.
- When there are multiple borrowers, the highest income earner's applicable score from the group of borrowers is the representative credit score for qualifying. If the income is the same (e.g. when borrowers have 50/50 ownership in a business), the highest score will be used.
- The highest mid-FICO score amongst all borrowers will be used to qualify on DSCR.
- All additional borrowers/co-borrowers will require a minimum FICO of 600 to be included in the subject loan application.
- Refer to Foreign National Credit for expanded criteria relating to those programs as it relates to credit qualification.

Tradeline Requirements

- If the primary wage earner on income-driven loans has two credit scores, the minimum tradeline requirement can be waived.
- If the primary credit qualifying borrower on DSCR loans has three credit scores, the minimum tradeline requirement can be waived.

Standard Tradelines

- Two tradelines reporting on credit for 12 months with activity in the most recent 90 days; or
- One tradeline reporting for 24 months with activity in the most recent 90 days. VOM/VOR or proof of taxes are paid on a free and clear property may be used to satisfy tradeline requirement so long as there is one tradeline on the credit report with activity in the most recent 90 days.

ONLY THE PRIMARY WAGE-EARNER MUST MEET THE MINIMUM TRADELINE REQUIREMENTS LISTED ABOVE.

Examples of unacceptable tradelines include:

- Loans in a deferment period
- Collection or charged-off accounts
- Accounts discharged through bankruptcy
- Authorized user accounts
- Deferred student loans

Insufficient Tradelines

Insufficient tradelines and non-traditional credit are permitted with acceptable required alternative credit.

Fraud Alerts & Freeze

Fraud Alerts

The three national credit bureaus have developed automated messaging to help identify possible fraudulent activity on a credit report. Examples of fraud alerts include:

- Initial 90-day Fraud Alert
- Extended Fraud Alert
- Active-Duty Alert
- HAWK Alert

All fraud alerts must be properly addressed and resolved. Approval will include a condition for a processor certification confirming they called and verbally spoke with the borrower and verified they applied for a mortgage loan.

Credit Report Security Freeze

The credit report used to evaluate a loan may not reflect a security freeze and must be resolved prior to an underwriting decision. If a borrower unfreezes their credit after the date the original credit report was ordered, a new three-bureau merged report must be obtained to reflect current and updated information from all repositories.

Credit Inquiries

A signed letter of explanation from the borrower or creditor is required for all inquiries within 90 days of the application date to determine whether additional credit was granted because of the borrower's request.

DOES NOT APPLY TO DSCR LOANS.

In a case where additional credit was granted and it is not yet shown on the credit report, the new account balance and payment terms must be documented and included in the DTI for a DTI-bearing program.

Updated Payment Histories

Payment histories may be requested directly from a creditor when the credit report indicates delinquencies have been removed or when most of the credit is from a non-institutional lender.

Debt Monitoring/Soft Credit Pull

Evidence of an active debt monitoring service is required within 10 days of closing. One of the following can be used:

- Soft credit pull
- Credit refresh
- Loan Quality Cross Check (LQCC)

Any new debt reflected in the updated debt monitoring must be considered for review and inclusion in any DTI bearing transaction.

DOES NOT APPLY TO DSCR LOANS.

Housing History

A borrower must provide evidence of the most recent 12 months housing history. Housing history is represented by the following;

- Verification of primary Mortgage, or;
- Verification of primary Rent, or;
- Living with a Spouse, or;
    - A Rent-free letter from spouse as described below and evidence of the spouse's current lease or mortgage. If owned free and clear, obtain a property profile with evidence property taxes paid current
- Owning a primary Free and Clear Property, obtain a property profile with evidence property taxes paid current, or;
- A primary Reverse Mortgage, or;
- A primary residence sold within the past 6 months

If the borrower is unable to document 12 months history using a combination of the represented categories, they are considered Living Rent Free, and an LLPA is applied to the loan.

Unverifiable Housing History Letter / Living Rent Free Letter

A detailed letter of explanation is required when housing history cannot be fully verified. The letter must either be provided by the person the borrower is living with and confirm the relationship, rent-free arrangement, and applicable time frame, or explain why only partial payment history or no payment history is available. A credit exception is

required when the borrower does not have documented housing history as required by the applicable guidelines and product matrices.

DSCR: A First Time Investor who is also a First Time Home Buyer, living rent free is not permitted.

Mortgage Verification

Credit report must be reviewed to determine the payment status for all reported mortgage accounts for the previous 12-24 months. Mortgages rating in the credit report must be verified as current through the month of closing. Any derogatory mortgage payment history reflected within the credit report will be considered during the credit qualifying and pricing of the loan. Refer to matrices for program specific requirements.

Mortgages on the primary residence or the subject property not reporting within the credit report, or having a less than 12 month history will require the following;

- VOM from third party; or
- Electronic Pay History printout directly from third-party mortgage servicer showing timely payments; or
- Copy of the Mortgage Note, Canceled checks front and back as well as the most recent mortgage statement; or
    - For private mortgages (defined as the mortgage lender being a natural person, a private lender, or hard money lender), provide a Copy of the Mortgage Note with either bank statements showing account ownership and timely payments debited by mortgage servicer, **or** canceled checks front and back along with the most recent mortgage statement. Credit Supplements not acceptable.
    - Verification needs to reflect pay history up to the month the loan is closing.
    - A Mortgage Statement, including a payoff demand, can be used to verify payment has been made in the month due.

For Mortgages with a Balloon Payoff

- A Balloon Note with a Maturity Date expired more than 45 days prior to the Note Date is ineligible for financing.
- If over 30 days past maturity, borrower must qualify with a 1x30, refer to product matrices.

Verification of Rent

For Rental Payments – one of the following is required:

- If was/is renting from a private party, request leases for each address to cover the most recent 12-month period, along with verification of timely payments made (either canceled checks front and back or bank statements showing account ownership and payments debited by landlord) are required.
- If was/is renting from a management company, either fully executed VOR or most recent lease, along with payment history ledger from management company, canceled checks front and back or bank statements showing account ownership and payments debited by management company. Rental company must be verified with a business listing on the internet, or a company website, or refer to private party documentation requirements.

For Free and Clear Properties - Verification that the property is free and clear is required:

- Property Profile Report

- Proof property taxes are paid current for the most recent property tax year

Credit Events

Review Program Matrices

A credit event is any one of the following events listed below:

- Bankruptcy
- Foreclosure
- Deed-in-Lieu (DIL)
- Short Sale
- Modification
- 1x120 mortgage history
- Non-COVID forbearance

Seasoning of a foreclosure, deed-in-lieu (DIL), or short sale is measured from the date of completed sale or final property transfer. The housing event must be completed prior to loan closing with no outstanding deficiency balance remaining.

All bankruptcies must be settled at the time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Promissory Note date. Please refer to the program matrices for requirements.

In the case of a foreclosure which was included in bankruptcy, the seasoning timeline will start from the earlier of:

- Date of discharge of bankruptcy; **and**
- Foreclosure completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the foreclosure date will be used.

ACTIVE FORECLOSURES ARE NOT ALLOWED.

In the case of a short sale/DIL which was included in bankruptcy, the seasoning timeline will start from the earlier of:

- Date of discharge of bankruptcy; **or**
- Short sale/DIL completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the completion date will be used.

SHORT SALE OR DIL CURRENTLY IN PROCESS ARE NOT ALLOWED.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed.

If the property was surrendered in Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Mortgage Modifications

A mortgage modification resulting in any of the attributes listed below is subject to Credit Event Seasoning guidelines.

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a subordinate mortgage that requires no payments
- Conversion of any portion of the original mortgage debt from secured to unsecured

Rolling Lates

ROLLING 30 DAY LATES COUNTED AS 1 INSTANCE UP TO 6 MONTHS.

Past-Due Accounts

Past-due consumer revolving and installment debts must be paid current at or prior to closing. Funds used to pay the debt current need to be sourced. Not applicable to DSCR.

Forbearance

Not Permitted. Reviewed on an exception basis only.

Delinquent Credit Belonging to Ex-Spouse

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all the following apply:

- Borrower provides a copy of the filed divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse
- Late payments occurred after the date of the divorce or separation
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage and evidence of buyout as part of court proceedings
- Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a filed divorce decree or separation agreement assigning the account solely to the ex-spouse.

Lawsuit/Pending Litigation

If the application, title, or credit documents reveal the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed.

The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of Sky TPO's first lien position.

Consumer Credit Counseling Service (CCCS)

Borrower enrollment in Consumer Credit Counseling Service (CCCS) is allowed when a minimum of 12 months has elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

- If accounts included in CCCS plan reflect charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in Collections and Charge-Offs. The monthly CCCS plan payment must be included in the DTI calculation.
- If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

Disputed Accounts

Current disputed accounts are excluded from the limit calculation as noted in the Collections and Charge-Offs section of this guide, if the borrower(s) meets minimum reserve requirements and has additional seasoned reserves (no gifts or cash out allowed to satisfy the requirement) totaling amount of disputed accounts (total Minimum Reserves + Disputed Account Balance(s).

Collections and Charge-Offs

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
- All medical collections
- Active payments being made on the collection or charge-off (payment must be added to DTI when loan is a DTI bearing program). Payment plan must be provided with documented 3 months' timely payments.

Collection and charge-offs with balances exceeding the amounts listed above must be paid in full prior to or at closing for consumer purpose, and prior to closing for business purpose.

Borrower must have sufficient reserves to cover the balance of the charge-off or collection and still be able to meet program reserve requirements.

Judgment and Liens

All judgments and liens must be paid in full prior to or at closing for consumer purpose, and prior to closing for business purpose. Medical judgements can be considered case by case.

Borrower must have sufficient reserves to cover the balance of the judgment and/or liens and still be able to meet program reserve requirements.

Bankruptcy

Refer to Matrices for program-specific requirements.

Liabilities

Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's DTI, if applicable.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full.

Installment debt paid down or paid in full prior to closing can be excluded from the DTI. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. Funds used to pay down or pay in full prior to closing must be sourced and borrower must have sufficient funds remaining to meet funds to close and reserves as required.

If no payment info is shown on the credit report, the calculation of the monthly payment will be 2% of the higher of the current unpaid balance or the high credit limit. A current monthly statement may also be provided to document the monthly payment amount when absent from the credit report.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the DTI. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the DTI calculation.

Revolving accounts are allowed to be paid off prior to or at closing to exclude the payment from the DTI for consumer purpose loans. Revolving accounts must be paid off prior to closing to exclude the payment from the DTI for income qualifying business purpose loans. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence that the debt has been paid in full. Funds used to pay in full prior to closing must be sourced and the borrower must have sufficient funds remaining to meet funds to close and reserves as required.

Authorized User Accounts

Authorized user accounts should not be considered in the borrower's DTI.

Business Debt

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected in the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the DTI.

Debts paid by the borrower's business can be excluded from the DTI with any of the following supporting documentation:

- Most recent 3 months canceled checks drawn against the business account; **or**
- Tax returns reflect the business expense deduction

This will not pertain to real estate owned if we can confirm with a property profile the mortgage is in the name of the business and the mortgage is not reported on the individual credit report.

Other Debt

Timeshares

Timeshare obligations will be treated as a consumer installment loan.

Student Loans

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation (the most recent student loan statement) may be used to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is $0. The borrower may then qualify with a $0 payment.
- For deferred loans or loans in forbearance, the following must be calculated: a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or fully amortizing payment using the documented loan repayment terms.

Federal Income Tax Installment Agreements / IRS Repayment Plan

- When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, please include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:
    - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower **and;**
    - The lender obtains the following documentation:
        - Approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
        - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

Child Support, Alimony, or Maintenance Obligations

Monthly alimony, child support, or separate maintenance fees should be current at time of application and must be included in the borrower's DTI. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past-due, the arrearages must be brought current prior to loan closing.

If 10 or fewer payments remain, see Installment Debt Section above to determine if the obligation may be excluded from the DTI calculation.

Contingent Liabilities

An individual has contingent liability when an outstanding debt has been assigned to another party, and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the DTI under the following scenarios:

- Property resulting from buy-out of former co-owner (e.g., divorce: file must include the court order and evidence of transfer of ownership)
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party

NOTE: THE PAYMENT HISTORY FOR THE ASSIGNED DEBT AFTER THE EFFECTIVE DATE OF THE ASSIGNMENT DOES NOT NEED TO BE EVALUATED.

Debt Paid by Others

When a borrower is obligated on a non-mortgage debt but is not the party repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. Debts can be excluded if documented as shown below:

- The most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making payments that document a 12-month payment history with no delinquent payments

When a borrower is obligated on a mortgage debt but is not the party who is repaying the debt, the full monthly payment may be excluded from the borrower’s recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt,
- There are no delinquencies in the most recent 12 months, **and**
- The borrower is not using rental income from the applicable property to qualify.

To exclude non-mortgage or mortgage debts from the borrower’s DTI, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt – regardless of whether the other party is making the monthly mortgage payments – the referenced property must be included in the count of financed properties.

Housing Payments/Other Real Estate Owned

The monthly mortgage payment (PITIA) used for qualifications for corresponding property as listed in the REO section of the application consists of the following:

- Principal and interest
- Hazard and flood and insurance premiums
- Real estate taxes
- Special assessments
- Association dues

- Any subordinate financing payments on mortgages secured by the corresponding property as listed in the REO section of the application

Lease Obligations

Lease obligations must be included in the DTI, regardless of the time remaining on the lease.

Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be the required monthly payment.

Open-end Accounts

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds must be verified in addition to any funds required for closing and reserves.

If the borrower paid off the account balance prior to closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance.

The most current monthly statement can be provided to document the present monthly payment when the monthly payment is not stated on the credit report.

Retirement/Savings Plan Loans

Repayment for loans against a financial asset (e.g., retirement/savings plan, insurance policy) can be excluded from the total DTI provided the debt can be repaid by liquidating the asset. The value of the asset must be reduced by the amount of debt when calculating funds for closing and reserves.

ASSETS

Sky TPO considers various forms of acceptable assets to be used for a transaction. Assets and reserves should be calculated and documented to Fannie Mae (FNMA) guidelines unless otherwise specified in the guidance below. FNMA guidelines will be used if not specifically addressed within these Guidelines regarding sources and types of assets.

The following is a list of established assets that are permitted to determine a borrower's liquidity. Next to each asset you will see **DP & CC** for Down Payment and Closing Costs Asset Types or **Reserves** for Reserves Asset Types.

General

Borrowers must provide bank statements and/or investment portfolio statements covering the timeframe required by the matrix. Summary statements are not acceptable.

Statements may be computer-generated but must include:

- Clear identification of the borrower as the account holder, including account holder name, account number(s), and the statement period.
- A full record of all deposits and withdrawals, including the previous closing balance, current balance, and ending balance.
- For retirement accounts, statements must reflect the most recent reporting period and must identify the borrower's vested amount and applicable terms.

Down Payment and Closing Costs- Acceptable Asset Types

Asset Type	Documents Required	Funds to Close DP&CC	Reserves

Liquid & Near Liquid	• Checking and Savings Accounts – 100%
	• Certificates of Deposit (CDs) – 100%
	• U.S. Savings Bonds
	  ○ 100% if fully matured
	  ○ 80% if not fully matured
	• Marketable Securities – 100% net of margin debt
	Marketable securities are defined as publicly traded stocks, bonds, or mutual funds.
	• Restricted Stock Units (RSUs), Refer to FNMA requirements.
		Eligible DP&CC	**Eligible Reserves**

Retirement Assets	• IRA, Keogh, and 401(k) Retirement Accounts
	  ○ 80% of vested balance if borrower is under eligible retirement age
	  ○ 100% of vested balance if borrower is at or beyond eligible retirement age
	  ○ Outstanding loans secured against the account must be excluded
	  ○ Documentation must confirm eligible terms of withdrawal
	• Pension Plans – 60% Only amounts accessible within a 30-day timeframe are eligible.
	• Annuities – 60% Only amounts accessible within a 30-day timeframe are eligible.
		Eligible DP&CC	**Eligible Reserves**

Business Assets	• The borrowers on the loan must have ≥ 25% ownership of the business and must be the owners of the account. If additional assets over the percentage of ownership are to be used toward down payment and/or reserves, an access letter(s) from the remaining owners of the business must be obtained.	**Eligible** **DP&CC**	**Eligible** **Reserves**
Cryptocurrency / Virtual Currency	• Cryptocurrency (including Bitcoin and Ethereum) is eligible only if converted to U.S. Dollars (USD) and transferred to a traditional U.S. bank account. Required documentation includes: • Verification of current valuation from the crypto exchange (e.g., Coinbase) • Statements evidencing ownership, liquidation, transfer, and use of funds	**Eligible** **DP&CC**	**Eligible** **Reserves**
Life Insurance Assets	Life Insurance: Cash value must be verified by a letter from the insurance company. If not provided, the surrender value must be used.	**Eligible** **DP&CC**	**Eligible** **Reserves**
Foreign Accounts	Must be transferred to a traditional bank account in U. S. Dollars (USD) at least 10 days prior to closing or proof of transfer sent directly to the settlement agent or escrow account. Sufficient documentation from the foreign account such as a statement must be provided to document the use of funds. All statements & documents must be translated to the English language. *FUNDS FROM AN INELIGIBLE OFAC SANCTIONED COUNTRY CANNOT BE USED.* http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx	**Eligible** **DP&CC**	**Eligible** **Reserves**

Trust Accounts	Funds disbursed from a borrower's trust account are an acceptable source if the borrower has immediate access to the funds. Requirements: • Written documentation of the value of the trust account from either the trust manager or the trustee; **and** • The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.	**Eligible** **DP&CC**	**Eligible** **Reserves**
Spousal Accounts	Accounts held solely in the name of a non-borrowing spouse.	**Eligible** **DP&CC**	**Eligible** **Reserves**

Credit Card Reward Points	• If the credit card reward points are converted to cash and deposited into the borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit.
	• If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, the lender must provide evidence the reward points were:
	  ○ available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and
	  ○ converted to cash prior to the closing of the loan.
		Eligible
		DP&CC
			Eligible
			Reserves

Bridge/Swing Loans	A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met: • The bridge loan cannot be cross collateralized against the new property. Bridge Loan payments must be included in the DTI. We must document the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.	**Eligible** **DP&CC**	**Ineligible** **Reserves**
Earnest Money Deposit	Verification is required by one of the following: • Copy of check along with certified escrow receipt. • Bank statement showing the check has cleared. • Verification of acceptable sources of funds on any deposit paid outside of escrow must be satisfactorily documented. • Multiple deposits made to escrow in addition to the initial EMD must be documented in the same manner as the initial EMD outlined above and are considered as downpayment funds. • EMD that has been with escrow longer than 12 months from date of the application, we will require an LOE from escrow/title company.	**Eligible** **DP&CC**	**Ineligible** **Reserves**
Relocation Credits	A copy of the commitment letter from the employer's relocation company describing the details and terms of the relocation package. A receipt showing the deposit of funds into the borrower's account or escrow/title must be obtained and included in the loan file.	**Eligible** **DP&CC**	**Ineligible** **Reserves**
Sale of Real Property	When the borrower uses **proceeds from the sale of real estate they own,** the **net proceeds must be fully documented** at the time of initial underwriting and again at closing. **Pending Sale (Not Yet Closed)** If the property is pending sale, the following documentation is required: • **Fully executed sale agreement**, and	**Eligible** **DP&CC**	**Eligible** **Reserves**

	• **Estimated Settlement Statement** (showing sufficient anticipated net proceeds and identifying all mortgages or liens to be paid at closing) At closing of the subject loan, the borrower must provide: **Final Settlement Statement from the property sold, confirming that net proceeds were deposited in the borrower's account or escrow and are sufficient to satisfy the required funds to close. This must be included in the loan file.Closed Sale** If the property has **closed**, the following documentation must be included in the loan file: • **Final Settlement Statement (FSS)** from the completed sale, and • Documentation that the net proceeds are available, either: ○ Held in escrow/title, or ○ Deposited into the borrower' s account (verified through acceptable asset documentation)		
Sale of Personal Assets	The following must be documented: • Borrower's ownership of the asset • Value of the asset, as determined by an independent and reputable source • Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser • Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check.	**Eligible** **DP&CC**	**Eligible** **Reserves**
1031 Exchange	• 1031 Exchange Agreement; • Purchase contract for subject property to acknowledge this is a 1031 Exchange ; • Copy of purchase agreement for vacated property to ensure it is included in the 1031 Tax Deferred Exchange verbiage; • Settlement statement from vacated property verifying funds realized from sale are held in the escrow account.	**Eligible** **DP&CC**	**Ineligible** **Reserves**

Subordinate Financing	New subordinate (junior) financing secured by the subject property and subordinating to the first mortgage is permitted, subject to the requirements below. **Eligibility Requirements** • The combined LTV/CLTV/HCLTV of the first mortgage and the new subordinate lien must not exceed program matrix thresholds. • The new subordinate lien must be from an institutional lender. Private party subordinate financing is not permitted. **Promissory Note Requirements** • The Promissory Note must provide for regular monthly payments of at least interest-only. • The Note may not include future advance provisions or wrap-around terms. **Documentation Requirements** The following must be obtained and reviewed: 1. Loan approval and repayment terms for the new subordinate lien. 2. Unsigned Subordination Agreement prior to closing. 3. Fully executed Subordination Agreement at closing. 4. Fully executed Promissory Note at closing.	**Eligible** **DP&CC**	**Ineligible** **Reserves**
Gift Funds	**Eligibility** • 100% Gift Funds are permitted for down payment and closing costs unless otherwise restricted by product matrix. **Eligible Donors** A gift may be provided by: • A relative, defined as the borrower's spouse, child, dependent, or any individual related by blood, marriage, adoption, or legal guardianship • A fiancé, fiancée, or domestic partner	**Eligible** **DP&CC**	**Refer to Matrices**

- A verified business partner

Additional donor restrictions:

- All Gift Donors must be screened against the OFAC Specially Designated Nationals (SDN) list, Sky TPO Watchlist, and Sky TPO Exclusionary List
- The donor may not be, nor have any affiliation with, the builder, developer, real estate agent, or any other interested party to the transaction.
- If the donor is a Business Partner, the file must contain evidence from a third party (CPA, State Records, Business Filings, etc.) documenting the borrower and donor are related through ownership of an active business.

Documentation Requirements

A signed gift letter is required and must include:

- The dollar amount of the gift
- The date the gift funds were transferred
- A statement that no repayment is expected
- The donor's name, address, telephone number, and relationship to the borrower

The underwriter must verify the donor's ability to provide the gift and evidence that the funds were transferred.

If Funds Are Transferred to the Borrower Before Closing:

Acceptable documentation includes:

- A copy of the donor's cleared check and the borrower's deposit slip
- A copy of the donor's withdrawal slip (showing beginning and ending balances) and the borrower's deposit slip
- A copy of the donor's check made payable to the closing agent, along with an escrow deposit receipt

If Funds are sent directly to the Closing Agent:

- The donor must provide the gift using a certified check, cashier's check, or official bank check/wire.

	• A prior-to-funding condition must document that the gift amount appears on the Closing Disclosure or Settlement Statement. • Gift Funds for reserves cannot be sent at Closing.		
Gift of Equity	A Gift of Equity is permitted when the following requirements are met: **Eligibility Requirements** • Gift of Equity is permitted for primary occupancy only. • The transaction must be treated as a purchase transaction, and a fully executed Purchase Agreement is required. **The donor must be a family member, including:** Spouse, domestic partner or any type of domestic union, fiancée, boyfriend/girlfriend, parent, brother, sister, child, grandparent, aunt, uncle, nephew, or niece. **Gift Letter Requirements** A signed and dated Gift of Equity letter from both the donor and borrower is required. The letter must: • Explain that the gift is a gift of equity. • State the amount of the gift. • State that no repayment is expected or implied. **Property & Lien Requirements** Proof is required showing that the existing mortgage lien on the subject property is not currently delinquent. **Borrower Contribution Requirements** The borrower's minimum contribution toward costs to close must meet Sky TPO's minimum requirements.	**Refer to Matrices**	**Ineligible** **Reserves**

Verification Of Deposit (VOD) Requirements

VOD's are required for the following parameters:

- Asset Utilization/Asset Depletion (most recent month used for income.)
- Profit and Loss Only (all assets used for down payment/funds to close, closing costs and reserves, most recent month or most recent month if using bank statement to support the Profit and Loss)
- Bank Statement Income (All assets used for income, down payment/funds to close, closing costs, and reserves, most recent month.)

A VOA obtained by Sky TPO, may be used in lieu of a VOD.

NOTE: If the balance verified within the VOA or VOD no longer supports qualification, updated asset documentation is required to support any shortage, regardless of the amount.

Individual Development Accounts

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs.

Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- the use of a parallel "savings" account that is separate from the homebuyer's savings account; and
- separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer; and
- the use of a trustee account that contains both the homebuyer's funds and the agency's matching funds.

When a homebuyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency's matching funds are held in an account that is separate from the homebuyer's account, the matching funds do not need to be combined with the homebuyer's funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.

Use of IDA Funds to Meet Borrower Minimum Contribution Requirements

Funds that the borrower deposited into an IDA may be used for either the closing costs or the down payment. Depending on the repayment terms of the IDA program, the borrower may or may not be required to meet the minimum down payment requirements from their own funds, as outlined below:

IDA Repayment Terms	Allowable Use of Matching Funds
If the nonprofit agency • requires repayment of the matching funds, • agrees to defer or forgive repayment provided that certain conditions are met, or • files a lien against the property.	Then the borrower may use the matching funds to supplement the down payment provided they have met the minimum borrower contribution requirements. The minimum borrower contribution must come from the borrower's own funds unless: • the LTV or CLTV ratio is less than or equal to 80%; or • the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions.
If the nonprofit agency • does not require repayment of the matching funds and • does not file a lien against the property.	Then the borrower may use the matching funds for some or all of the down payment without first being required to meet the minimum borrower contribution requirement from their own funds.

Documenting Funds to Close and Reserves

Refinance Transactions – Funds to Close

- Documentation for large deposits is not required; however, the underwriter must confirm that no borrowed funds are being used, and any related liability must be considered, when applicable.
    - A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.
    - A large deposit is defined as a single deposit that exceeds 10% of the loan amount for non income qualifying loans.

Purchase Transactions – Funds to Close*

- Documentation is required to verify all funds used to close are from an acceptable source. Unverified amounts require a letter of explanation from the borrower. If the deposit cannot be verified as an acceptable source, the deposit must be backed out from the total being used for funds to close.

All Transactions – Reserves**

- Documentation is required to verify all funds used for reserves are from an acceptable source. Unverified amounts require a letter of explanation from the borrower. If the deposit cannot be verified as an acceptable source, the deposit must be backed out from the total being used for reserves.

  *Funds to close for Purchases includes the Earnest Money Deposit
  ** When 2 or more account statements are used for reserves, the Opening Balance on the most recent account statement is considered sourced.
  ** When using Bank Statements for income qualifying and funds to close/reserves, the most recent Opening Balance is considered sourced.

Large Deposit

- Single deposits exceeding 10% of the Loan Amount must be sourced.

INCOME

Sky TPO offers a variety of income qualification options for borrowers with non-traditional income sources.

A borrower's stable monthly income is defined as verified gross income that can be reasonably expected to continue for at least three (3) years. To use income for qualifications, the borrower must demonstrate stability in both the source and the amount of income received. This can be determined through the following methods:

- A minimum two-year employment history is required and must be supported by a VVOE or WVOE, as applicable.
- If the borrower has less than two years of receiving the income being used to qualify, the underwriter must analyze and document the basis for determining whether the income is stable and likely to continue.
- While income sources may vary over time, the borrower must demonstrate a consistent overall level of income, regardless of changes in the specific sources.

General

Eligible Full Doc Income

- W2
- 1- or 2-years tax returns
- Retirement (non-taxable income)

Eligible Alternate Doc Income

- 12- or 24- months bank statements (personal)
- 12- or 24- months bank statements (business)
- P&L Only
- P&L & 2 months Bank statements
- 1099 (IRS Form) Only
- Written VOE

Unacceptable Income Sources

- Contributions or support from family members outside of regular W2 wage earnings
- Educational benefits
- One Time Capital Gains (continuing Capital Gains may be considered as an acceptable source of income)
- Refund of federal, state, or local income tax
- Self-employed income derived from the growth, distribution, transfer, development, or other vendor/supplier relation to marijuana
    - NOTE: W2 Wage earnings for employees of a marijuana related business are **eligible**

4506-C Requirements

An executed IRS Form 4506-C is required only when the borrower's income documentation relies on tax return or W-2 verification (e.g., Full Doc or W-2 income).

A 4506-C is not required when the borrower qualifies using income types that do not rely on tax returns or W-2s, such as DSCR, Bank Statement, or Asset Depletion, provided the applicable alternative documentation (e.g., ADA form) is completed.

When the most recent tax transcript is not available the following is required:

Prior to April 15th

- Previous 1 year tax return; and
- Year-end P&L Statement covering 12 months of the most recent tax year; and
- YTD P&L Statement

After April 15th

- Previous 1 year tax return; and
- Copy of extension from IRS; and
- Year-end P&L Statement covering 12 months of the most recent tax year; and
- YTD P&L Statement

Refer to **Foreign National and ITIN Income Qualification Requirements** for expanded criteria applicable to those programs.

Verbal Verification of Employment (VVOE)

A verbal verification of employment must be obtained for each borrower whose employment income is used to qualify. All VVOEs must meet the following requirements:

Timing requirements

- Wage earners: completed within 10 calendar days of the note date

VVOE content requirements

- Confirm the borrower is actively employed as of the verification date
- Include the name and phone number of the individual completing the VVOE
- Include the borrower's name, position, and loan number
- Include the name, position, and phone number of the individual providing the employment verification
- Independently verify the employer's phone number using:
  - telephone directory
  - internet listing
  - directory assistance
  - applicable licensing bureau

Self-Employment Verification

Sky TPO will accept self-employment verification from a CPA, PTIN*, EA, CTEC, Chartered Tax Adviser (Acceptable Third Party), or alternative documentation as described below.

Acceptable Third Party: An independent tax professional who is qualified to verify a borrower's self-employment, including a Certified Public Accountant (CPA), individual with an active Preparer Tax Identification Number (PTIN)*, Enrolled Agent (EA), California Tax Education Council (CTEC) registered tax preparer, or Chartered Tax Adviser.

The CPA/Acceptable Third Party providing the letter must be independently validated.

Validation must include one of the following, and be within 30 days of the Note Date:

- Verification of an active CPA license through the applicable state licensing authority; and
- Verification of the CPA's business through an active website. A printout must be retained in the file and include the website URL, page header or footer, and the date accessed.
- Verification of an active CTEC
- Verification of an Enrolled Agent via IRS
- Verification from a regulated tax authority
- Verification of an active PTIN (Preparer Tax Identification Number), if applicable.

*A PTIN may be used in the following circumstances:

- Must have an active website identifying name, address; and
- One of the following:

- Must be able to verify websites (Google, LinkedIn etc.) and identify the business as a tax preparer or similar; **or**
- PTIN working seasonally for tax preparers and/or companies such as HR Block, Turbo tax etc. are acceptable with documentation supporting seasonal employment such as verification they are currently employed or proof they have recently been employed as a tax preparer

- When a PTIN is used, Sky TPO's file must contain evidence the preparer was validated using documentation listed above, dated within 30 days of the note date.

Verification of Self Employment

- A CPA/Acceptable Third Party letter is valid for 30 days from the date of the letter. If a CPA/ Acceptable Third Party letter is not obtained, verification from a regulatory agency or official state source may be used. Regardless of the source used, the documentation must evidence the existence of the borrower's business and that the business is currently active and legally operating. Online printouts must be retained in the loan file and include the website URL and the date and time accessed in the header or footer.
- If the business is not required to be licensed and the Underwriter has reasonably verified this, an internet search may be used to validate the existence of the business. Acceptable documentation includes an active company website or search results displaying the business name, address, phone number, or operating hours. An internet search is not an acceptable source of verification for businesses that are required to be licensed. For licensed businesses, verification must be obtained through a CPA/Acceptable Third Party, regulatory license, or regulatory agency source. Printouts must be retained in the loan file and include the website URL and the date and time accessed in the header or footer.
- All verification documents, printouts, and supporting evidence must be dated and obtained within 30 days of the Note Date. Online printouts must be retained in the loan file and include the website URL and the date and time accessed in the header or footer.
- Documents obtained within 30 days of the Note Date do not require reverification.
- If a CPA/Acceptable Third Party letter is more than 30 days old, Sky TPO must either:
  - Obtain a new CPA/Acceptable Third Party letter, or
  - Contact the CPA/Acceptable Third Party to reverify the information and document the reverification in a written attestation retained in the loan file.
  - CPA/Acceptable Third Party validation must also be updated

Full Doc

The Full Doc program allows for several income documentation options as outlined below.

Eligible Full Doc Income

- W2
- 1- or 2-years tax returns
- Retirement (non-taxable income)

Wage Earner

Full time, part time and second job employment status required documentation:

- Most recent 1-year W2 & paystub covering most recent 30 days of earnings for full-time employment. (If using income other than base/salary or employed part time or using second job income – 2 years W2 & WVOE required along with most recent paystub covering 30 days of earnings.)
- Signed 4506–C and transcripts to support income.
- Pay stubs must be typed or computer generated and should reflect year-to-date (YTD) earnings. If internet printout, the URL and date should be included. Handwritten pay stubs are acceptable, if supported by bank statements for the most recent 2 months.
- W-2s must be typed or computer generated and should reflect a nine-digit employer ID number (EIN). If internet printout, the URL and date must be included.
- Documents should provide the borrower's full name, address, employer name, YTD earnings, and rate of pay.
- If pay stubs reflect garnishments (child support, IRS, etc.) or any loan deductions (401(k) exempt), additional information will be required to determine if a monthly payment should be included in the DTI calculation.

Written Verification of Employment (WVOE)

- FNMA Form 1005 or FNMA approved 3rd party vendor required such as The Work Number
- At a minimum, the WVOE must include the most recent 1- or 2-years income along with YTD earnings, the borrower's name, position, dates of employment, and base salary.

Common Pay Frequencies

Wage Period	Wage Description	Mathematical Function	Frequency	Mathematical Function	Number of Months
Weekly	Weekly gross pay	X	52 weeks	÷	12 months
Bi-Weekly	Bi-Weekly gross pay (every other week)	X	26 pay periods	÷	12 months
Bi-Monthly	Bi-Monthly gross pay (twice a month)	X	24 pay periods	÷	12 months
Monthly*	Monthly gross pay (once a month based on number of months paid in a year)	X	Number of months paid	÷	12 months
Hourly	Hourly gross pay rate x average number of hours per week	X	52 weeks	÷	12 months

Things to note:

Position/job must be verified as a 12-month position along with the number of months paid in a year (ex: Educators).
Income must be consistent with reported annual income

Bonus Income

- The borrower must evidence a minimum of 12-month history (e.g. YTD, prior year, prior year + YTD) of bonus income.
- Borrowers in the same line of work with different employers will be considered on a case-by-case basis.
- WVOE verifying probable continuance of bonus income, or if not commented on, a 2-year history will suffice for probability of continuation.
- Calculation will be based on the most recent 12-month history.

Commission Income

- The borrower must evidence a minimum of 12-month history (e.g. YTD, prior year, prior year + YTD) of commission income.
- Borrowers in the same line of work with different employers, will be considered on a case-by-case basis
- WVOE or end of the year paystub is required.
- Paystubs must reflect commission income on YTD earnings.
- A Letter of Explanation (LOE) from the borrower, expanded history and further support will be required if commission income is declining.
- Calculation will be based on the most recent 12-month history.

Overtime Income

- Must be verified as historical and average YTD earnings.
- When reviewing the trend history of OT, it should be verified that the income is consistent over that timeframe and will have a high likelihood of continuance.
- Calculation will be based on the most recent 12-month history average.

Shift Differential

- Must be verified as historical and average YTD earnings.
- When reviewing the trend history of Shift Differential, it should be verified that the income is consistent over that time frame and will have a high likelihood of continuance.
- Calculation will be based on the most recent 12 months history.

Seasonal Employment/Unemployment

The borrower has worked for the same employer for the past 24 months (if less than 24 months, borrower is ineligible).

- WVOE required stating a reasonable expectation of returning the next season
- If using unemployment compensation for time-off has been consistent for the past 24 months and coincides with the seasonal job
- Income to be annualized over a 12-month period for qualifying purposes, unless income is declining

NOTE: IF THEY ARE IN A UNION (CONSTRUCTION, ELECTRICAL, PLUMBING) AND ARE PLACED ON DIFFERENT JOBS OVER A PERIOD THAT IS CONSIDERED ACCEPTABLE

Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Use the verified monthly amount as documented by WVOE and evidence of receipt. The WVOE must include the likelihood it will continue for the duration of the enlistment.

Possible pay types include:

- Flight pay
- Hazard pay
- Rations
- Clothing allowance
- Quarters allowance
- Proficiency pay

12 Months Tax Returns Non-SE Income:

- Most recent 1-year tax return
- YTD P&L covering most recent closed quarter (can be self-prepared)

Continuation of Income

For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency/cryptocurrency.

Self-Employed

General Requirements for Self-Employed Income

Minimum Ownership Requirements:

- Borrowers must own at least 25% of a business to be considered self-employed.
- Borrowers must have been successfully self-employed for a minimum of two full years.
- A borrower with more than one year but less than two years of self-employment may qualify if they can document:
    - At least one year of previous successful employment in the same or related line of work, or
    - One year of employment plus formal education or training in the same field.

Income Documentation Requirements – Self-Employed

When using personal or business tax returns for qualifying income, the below requirements must be met:

- Signed 1040 forms
- Proof of tax payment: The taxpayer must provide proof that their taxes have been paid in full. If the taxes have not been fully paid, the taxpayer must provide documentation of an installment plan with the IRS.
- Installment plan requirements: If an installment plan is in place, proof that at least 3 payments have been made under the new plan is required.
- The DTI must be updated to reflect any payments made under an installment plan.

Sole Proprietor

Use 1040 federal tax return Schedule C net income/loss, plus non-cash expenses

- 2-year history of receipt
- Complete 1040 federal tax return with all schedules
- Current YTD P&L with bank statements for 3 preceding months

General Partnership

Use income average from 1040 federal tax return Schedule E and 1065 federal tax return based on borrower's percentage of ownership

- 2-year history of receipt
- K1's with all schedules for most recent year; **and**
- Complete 1040 Federal Tax Return with all schedules
- Current YTD P&L with bank statements for 3 preceding months

Limited Partnership

Use income average from 1040 Federal Tax return and K1's based on borrower's percentage of ownership

- Two-year history of receipt
- K1's with all schedules for most recent year; **and**
- Complete 1040 and 1065 federal tax returns with all schedules
- Current YTD P&L with bank statements for 3 preceding months

S-Corporation

Use income average from 1040 and 1120-S federal tax returns

- 2-year history of receipt
- K1's with all schedules for most recent year; **and**
- Complete 1040 and 1120-S federal tax returns with all schedules
- Current YTD P&L with bank statements for 3 preceding months

Corporation

Use income average from 1040 and 1120 federal tax returns based on borrower's percentage of ownership

- 2-year history of receipt
- Evidence will continue
- K1's with all schedules for most recent year; **and**
- Complete 1040 and 1120 Federal Tax Returns with all schedules
- Current YTD P&L with bank statements for 3 preceding months
- Cash flow and liquidity test not required.

Supplemental Income

Alimony and Child Support

- Use verified monthly income amount.
- 6-month history of receipt required.
- Verification that income will continue for a minimum of 3 years.
- Recorded divorce decree and/or child support award.

Auto Allowance

After excluding the monthly auto payment from liabilities, only the amount of the allowance exceeding the auto payment may be counted as income.

- 2-year history of receipt.
- Employer letter stating amount, frequency, and likelihood of continuance.
- Current paystub showing monthly allowance.

Capital Gains/Losses

- Use a 2-year average from 1040 tax returns.
- 12-month history required.
- Must continue for minimum of 3 years.
- Provide 2 years of 1040s with Schedule D.

Disability Income

- **Permanent**
  - Use current verified monthly disability payment.
  - Most recent bank statement showing receipt.
  - Two most recent disability paystubs/payment advances.
  - Must continue for at least 3 years.
  - Award letter required.
- **Temporary**
  - Use the lower of temporary disability or regular employment income unless return-to-work occurs before first payment due.
  - Employer documentation confirming return date.
  - Borrower letter confirming intent to return.
  - Short-term disability award letter.
  - Documentation of prior employment income.

Employed by a Relative

- Must use a 2-year average unless most recent year is lower. If most recent year is lower, that will be used.
- 2-year history of receipt and continuance required.

- Most recent 6 months of bank statements verifying net income deposits.
- WVOE for 2 years + YTD.
- W-2s for most recent 2 years.
- Current paystub.

Foster Care

- Income averaged over most recent consecutive 12 months.
- 2-year history and evidence of continuance required.
- Agency letter showing amount per child.
- 24 months of bank statements showing deposits.

Housing Allowance

- Allowed only for military or clergy.
- Added to income to offset housing payment for DTI.
- Must be reasonable and customary.

Military Personnel

- Monthly allotment statement required.
- Must continue for next 2 years.

Clergy Members

- 2-year history of receipt.
- Evidence of continuance for next 2 years.
- Employment contract required.

Interest and Dividend Income

- Use 2-year average.
- Must have 2-year history to be stable.
- Provide 2 years of 1040s with Schedule B.
- Provide recent statements to verify assets for continuance.
- **Ineligible:** Income from assets used for down payment / closing costs.
- **Ineligible:** Non-recurring interest/dividends (must be excluded).

Lottery Winnings

- 12-month history required.
- Must continue for at least 3 years.
- Copy of original payout agreement.
- Bank statements verifying receipt.
- 2 years of 1040s or 1099s.

Mortgage Differential Payments

- Added to gross income; cannot offset mortgage directly.
- Evidence of receipt required.
- Employer verification stating amount and 2-year continuance.

Promissory Notes Receivable

- Use verified monthly payment amount.
- 12-month history required.
- Must continue for 3 years.
- Executed Promissory Note.
- 6 months of bank statements showing deposits.

Public Assistance

- Use monthly amount received.
- 2-year history required.
- Must continue for 3 years.
- Agency letter stating amount, frequency, and duration.
- Bank statement verifying receipt.

Rental Income

Not applicable to DSCR programs.

Departing Residence

- The departing residence may not be leased to a family member.
- When rental income is documented by market rent only (e.g., appraisal rent schedule or Zillow Rent Zestimate), qualifying rental income is limited to 80% of gross rent to account for vacancy and operating expenses.
- When a fully executed lease agreement is provided, along with evidence of receipt of first month's rent and security deposit, 100% of the gross rental income may be used to offset the departing residence mortgage payment.
- Zillow Rent Zestimate may be used to support market rent when a lease is not available.

All Other Properties (Existing Rental Income)

Full Doc

- Most recent 1year tax return with Schedule E.

Alt Doc

- Current lease + 2 months of proof of rent receipts.

Full/Alt Doc — New Lease

- Executed lease.
- Proof of security deposit + first month's rent deposited.
- Not leased to family member
- Purchased within last tax year
- Permitted to offset the Mortgage payment only

Short-Term Rentals

- 1year history shown on tax returns.
- Proof of ongoing short-term rental activity.
- Market rents not allowed.

ADU Rental Income

- Appraisal must confirm legal zoning compliance.
- At least two comparables with ADU.
- Improvements typical for the market.
- Multiple ADUs reviewed case-by-case.

Less Than 1 Year Rental History

- Subject Property:
  - Primary residence: rental income up to PITIA may be added to income.
  - Investment: rental income may only offset PITIA (no positive cash flow).
- Non-Subject Property:
  - Primary residence: rental income up to PITIA allowed.
  - Investment: rental income may only offset PITIA.

If borrower has no primary housing expense, rental income cannot be used.

Royalties

- 12-month history required
- Must continue for 3 years.

RSU Income – Restricted Stock

Must be vested and regularly received.

- Documentation:
  - Issuance agreement
  - Distribution schedule
  - Vesting schedule
  - Proof stock is publicly traded
  - YTD paystub + 2 years W-2s

Income Calculation

- Use lower of current stock price or 2-year average.
- Use 2-year average of vested units + YTD.
- Future vesting must support income.

Social Security for Dependents

- Use verified monthly amount.
- Dependent age must be documented.
- 2-year history of receipt and continuance required.
- Award letter.
- Recent bank statement or most recent 1099.

Tips and Gratuities

- Use average of prior year + YTD.
- 2-year WVOE history.
- Evidence of continuance.
- Current paystub required.

Trust Income

- Use 2-year average from 1040 returns.
- Must be from fixed assets with no withdrawal restrictions.
- Must continue for 3 years.
- Trust agreement or trustee statement confirming terms.

Unemployment Compensation

(Allowed only for predictable seasonal patterns.)

- Use 2-year average.
- Bank statements verifying receipt.
- 2 years of 1040s.

Union Members

- Use average of most recent year + YTD.
- Must show stable trend.
  Documentation:
- 2-year WVOE + YTD
- Current paystubs
- 2 years of W-2s
- If no YTD paystub: 6 months of bank statements showing earnings.

ALT DOC INCOME

Bank Statement

BANK STATEMENT ANALYSIS

Self-employed borrowers may use either personal or business bank statements. The guidance below applies to both documentation types, as applicable.

General Requirements

- **Consecutive and Current Statements:**
  Streamlined bank statements must be consecutive and reflect the most recent months available. Page 1 is acceptable for each monthly statement if it shows the beginning balance, deposits, withdrawals, and ending balance.
  - If the most recent month shows a 50% or greater variance between beginning and ending balances, all pages will be required for all months submitted.
- **Deposit Analysis:**
  Deposits must support stable and generally predictable income.
  - Large or unusual deposits must be sourced. A large deposit is defined as a single deposit exceeding 50% of the monthly average deposits.
  - If not sourced, they must be excluded.
  - Large cash deposits are not acceptable
- **Seasonal Income:**
  If income is seasonal and a 2-year history provides a more accurate representation, **24 months** of bank statements are required.
  For example: industries such as construction, mining, landscaping, etc., where income is concentrated in a particular quarter or 6-month period.
- **NSF/Negative Balances:**
  Non-sufficient funds and negative beginning/ending balances will be reviewed for the most recent 60 days and evaluated at underwriter discretion.
- **Transfers:**
  When all pages of bank statements are used to qualify income, transfers must be excluded, unless the transfer is a wire from another business indicating payment for services rendered.
- **Other Income Sources:**
  Sky TPO may consider other income types in conjunction with the Bank Statement Program (e.g., W2 income, asset depletion, or other FNMA-permitted sources).

Non-profit entities are not eligible for Bank Statement Programs.

Borrower & Business History Requirements

Personal Self-employment History

Borrowers should be self-employed for at least 2 years.
A borrower may qualify with more than 1 year but less than 2 years if they can document: employed for at least 2 years.

- At least 2 years of prior successful employment in the same line of work or a related field; or
- 1 year of employment in the field plus formal education or training in the same occupation.

Business History

The business should be established for at least 2 years. If self-employment is more than 1 year but less than 2 years, then:

- The business must have been established for the same duration, and
- The borrower must document prior experience or schooling in the same field during the year before establishing the business.

Ownership Verification for Business Bank Statements

When analyzing business bank statements, the underwriter must verify the borrower's **percentage of ownership**. Income must be calculated based on that percentage.

Acceptable documentation includes:

- Business license showing ownership
- Signed written statement from a CPA or third-party tax preparer; OR an operating agreement listing the borrower as "single member"
- Articles of Incorporation/Organization showing the borrower as President, Director, or Officer (and as the only listed principal)
- Partnership Agreement
- Business Certificate filed with a governmental agency
- Third-party verification confirming the business exists and is in good standing

12- OR 24- Month Personal Bank Statements

When personal bank statements are used for income qualification, all parties listed on the account must be included as borrowers, unless each deposit can be clearly documented as business income with supporting invoices.

Required Documentation

- **12 months of personal bank statements** (multiple accounts may be combined).
    - Statements must be dated within 90 days of the Promissory Note date.
- **2 months of business bank statements** to confirm the borrower maintains a separate business account.
    - Transaction histories are not acceptable.
    - If business statements cannot be provided, refer to the *Business and Comingled Personal Bank Statements* section for additional requirements.

Analysis Requirements

- **100% of deposits** in the personal bank account(s) may be used, subject to overall program guidelines and deposit eligibility rules.

Business and Co-Mingled Personal Bank Statements

A co-mingled account is a personal account used for both business and personal activity.

Eligibility & Requirements

- A separate business account is not required.
- A 10% expense factor will be applied.
- The borrower must be the sole owner of the business.
- The borrower must be self-employed for at least 2 years, and the application must reflect a minimum of two years of employment history.
- The business must have been in existence for at least 2 years, supported by one of the following:
    - CPA letter
    - Business license
    - Other reasonable evidence of ongoing business activity

12- or 24- Month Business Bank Statements

Required Documentation

- **12 months of business bank statements**, or statements from account opening to current if the same account spans less than 12 months.
    - If the account was moved to another bank and continuity can be documented, this is acceptable.
- Co-mingling multiple business accounts to create a full 12-month history is not permitted.

Analysis Requirements

- Transaction histories are not acceptable.

- The borrower must own at least 25% of the business.
    - If ownership is shared, income must be prorated based on the borrower's ownership percentage.
- Third-party verification confirming the business is in existence.
- Statements must be consecutive and reflect the most recent period available.

Qualifying Income Calculation

Income may be calculated using one of the following methods:

1. **Fixed 25% Expense Ratio**
    - Qualifying income = Percentage of gross deposits after applying a 25% expense factor.
2. **CPA/Acceptable Third Party-Supported Expense Ratio**
    - A fixed expense ratio as provided by a CPA/Acceptable Third Party.
    - The tax professional must attest that:
        - They have audited the business financial statements or reviewed supporting working papers; and
        - They are not affiliated with the borrower or the borrower's business.

The minimum allowable expense ratio is 10%.

Excluded Deposits

The following deposits **must be excluded** when all pages of statements are provided:

- Transfers from other bank or asset accounts without supporting statements
- Extraordinary asset sales not tied to normal business activity
- Borrowed funds or grants
    - e.g., SBA loans, SBA PPP grants, or similar COVID-19 stimulus funds
- Tax refunds
- Gift funds
- Rental income deposits

Note:
This list is not exhaustive and is subject to underwriter review and discretion.

Asset Utilization & Asset Depletion

Asset Utilization

May be used to determine qualifying income both alone and in conjunction with other documentation options. See the applicable Sky TPO Matrix for restrictions.

GIFT FUNDS ARE NOT PERMITTED WHEN ASSET UTILIZATION IS SOLEY USED.

Qualified assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts, and bank accounts. If a portion of qualified assets is being used for down payment, closing costs or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination.

A large deposit is a single deposit that exceeds 50% of qualifying gross monthly income for asset utilization.

Proof of 3-month seasoning of all assets is required.

Seasoning is measured from date of deposit to Final Approval date. Seasoning starts from the date the funds are deposited into the qualified asset account. For example, Proceeds of Sale deposited 1/1 will be seasoned and eligible for Asset Utilization 4/1, OR Liquidation of Crypto / Virtual Currency deposited 1/1 will be seasoned and eligible for Asset Utilization on 4/1.

The following assets are considered qualified assets and may be utilized to calculate income:

- 100% of checking, savings, and money market accounts.
- 100% of the remaining value of stocks & bonds.
- 70% of 401(k), Retirement assets (if under 59 ½ years old).
- 100% of 401(k), Retirement assets (if over 59 ½ years old).
- Trust accounts
- Cash value of life insurance. Surrender or cash value.
- Business funds must be transferred to the borrower's personal account.

Calculating Qualifying Income

The income calculation is as follows: Monthly Income = Net Qualified Assets / 60 Months

Asset Depletion

Asset Depletion may be used as an additional qualifying source on **DSCR loans** when permitted by the program matrix.

DSCR Calculation with Asset Depletion

- DSCR is calculated as: (Monthly total qualifying income ÷ Starting Payment)
- Monthly total qualifying income may include:
    - Rental cash flow, plus
    - Eligible assets divided by 60 months

The result is the Debt Service Coverage Ratio (DSCR). Refer to the applicable program matrix for the minimum DSCR required.

Program Restrictions

Asset Depletion is **not permitted** for:

- Short-term rental properties

- 5–8-unit properties
- ITIN Breezy program
- Transactions where the borrower has multiple loans in process with Sky TPO (to prevent reuse of the same assets)
- Any transaction with an approved exception

Profit and Loss Only

Refer to the matrix for min FICO and max LTV.

Below list is required if utilizing a Profit and Loss (P&L) statement for income validation:

- P&L is required to be completed, reviewed and signed by CPA/Acceptable Third Party.
- The borrower must be self-employed for two years.
- P&L covering the most recent previous 12 months. To be dated with the most recent month within 90 days of close completed and reviewed by a Certified Public Accountant/Acceptable Third Party.
- The CPA/Acceptable Third Party must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated or /associated with the borrower's business if they have not done so somewhere else in the loan file.
- Proof that the appropriate 3rd party completing the review is duly licensed, or certified (certification or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3rd party (certification proven by other reasonable methods may be allowed at underwriter discretion)
- Proof the business has been in operation for 12 months or longer
- 3rd party documentation from which the borrower's ownership percentage can be determined
- Documents which are not required to list all owners do not meet this requirement
- P&L must reasonably reflect the income and expenses of the industry described
- P&L statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification.

Profit and Loss + 2 Months Bank Statements

All requirements must be met as listed under P&L Section along with:

- Two months of Business Bank statements.

The monthly gross revenue from P&L must be supported by the bank statements provided. The total monthly average deposits from the bank statements, minus any disallowed deposits, must be no more than 20% less than the monthly gross revenue on the P&L.

1099 Only

Borrowers who have a 2-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least 1 year of receiving 1099 in the same line of work may utilize this program.

This program is typically used for individuals earning 100% commission or are considered independent contractors.

Multiple 1099s can be used if verification borrower is still earning or contracting through all companies the 1099s have been provided for.

The borrower must provide the following:

- 1099 for the previous tax year, payable to the borrower not a business.
    - May be payable to business when borrower is 100% owner of the business.
- VOE from the current contract employer covering the most recent 2 years plus YTD earnings, likelihood of continued contractor status and whether the contractor is required to pay for any business-related expenses (non-reimbursed).
- If the verification does not reference related expenses, then a Fixed Expense Ratio of 10% may be used OR 3rd party prepared P&L (CPA/Acceptable Third Party) with an attestation of expense ratio.
- Most recent two months proof of receipt is required in the form of paystubs, checks or bank statements.

Income is qualified using:

- 12-month average from the total number of 1099s minus the expense factor from a method chosen from above.
- YTD earnings must be documented to support the ongoing receipt of income showing on the 1099s by:
- Checks or a single check stub with YTD totals if available; **or**
- Bank statements covering YTD
- YTD earnings must be within 10% or greater than the prior year's earnings.

NOTE: IF WVOE CANNOT BE OBTAINED FOR ANY EMPLOYERS IN 2-YEAR HISTORY, NEED LOE REGARDING EXTENUATING REASON IT CANNOT BE OBTAINED AS WELL AS YEAR END AND YEAR TO DATE PAYSTUBS FROM ALL EMPLOYERS TO SUPPORT INCOME CALCULATION.

Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

WVOE Only

Only allowed for owner-occupied transactions. Only Wage/Salary is used to qualify.

- Income and employment may be provided by an FNMA-approved third-party vendor, such as The Work Number or completed on FNMA Form 1005. Form 1005 may be used together with W-2s and paystubs when needed to document fluctuating income (bonus, overtime, commission).

Minimum verification content must include:

- Most recent 1–2 years of income
- Year-to-date (YTD) earnings-to-date (YTD) earnings
- Borrower's name
- Borrower's position/title
- Dates of employment
- Wage/Base salary

DSCR DOCUMENTATION

The DSCR documentation option is permitted **only** under the **Investor Program**, where the subject property's income—not the borrower's personal income—is used to qualify the loan. Debt Service Coverage applies to investors purchasing or refinancing income producing properties held for business purposes.

Property Income Analysis

- Gross monthly rents are used to determine the DSCR.
- A 1007 or 1025 Comparable Rent Schedule prepared by the appraiser is required for all DSCR transactions.
- Properties used exclusively for short-term rentals are permitted; refer to the Short-term Rental section for applicable requirements.

Borrower Experience

- An experienced investor is defined as a borrower who has owned and managed commercial or nonowner occupied residential real estate for at least 1 year within the past 3 years.

Asset Depletion

- Can be considered. Refer to the Asset Depletion section for eligibility.

Rental Documentation Requirements

Long Term Rental Income

Purchase

Transferred Lease

When the subject property is tenant occupied and the lease will transfer to the borrower at closing:

- Rental income may be determined by using either the actual transferred lease amount or the market rent taken from Form 1007 or 1025.

If using the Lower Amount (Lease or Market Rent)

- When the lower of the two figures is used to qualify, no additional documentation is required.

If using the Higher Actual Existing Lease Amount

- When the actual lease amount exceeds the market rent and you choose to qualify using the higher lease amount, the following are required:
  - Copy of existing lease
  - Provide evidence of 2 months of receipt
    - First month's rent + security deposit, or
    - First and second months' rent

If the 1007/1025 Market Rent Is Higher Than the Transferred Lease

- The higher market rent may be used to qualify with no additional documentation required.

New Lease

If using the Lower Amount (Lease or Market Rent)

- When the lower of the two figures is used to qualify, no additional documentation is required.

If using the Higher New Lease

- When the new lease amount exceeds the market rent and you choose to qualify using the higher lease amount, the following are required:
    - **Copy of new lease**
    - **Provide evidence of 2 months of receipt**
        - Acceptable evidence includes:
            - First month's rent + security deposit, or
            - First and second months' rent

If the 1007/1025 Market Rent Is Higher Than the New Lease

- The higher market rent may be used to qualify with no additional documentation required.

REFINANCE

General Requirements

- FNMA Form 1007 or 1025 reflecting long-term market rents is required.

Rental Income Determination

Monthly gross rents may be determined using either the actual lease amount or the market rent from Form 1007/1025:

If using the Lower Amount (Lease or Market Rent)

- When the lower of the two figures is used to qualify, no additional documentation is required.

If using the Higher Actual Existing Lease Amount

- When the current active lease amount exceeds market rent and is used to qualify, the following must be provided:
    - Copy of the fully executed active lease
    - Evidence of 2 most recent consecutive months of rent received
- If the existing lease has been converted to month-to-month the following must be provided:
    - Evidence of 2 most recent consecutive months of rent received

If using the 1007/1025 Market Rent that Is Higher

- The higher market rent may be used to qualify with no additional documentation required.

If using the Higher New Lease

- When the actual NEW lease amount exceeds the market rent and you choose to qualify using the higher lease amount, the following are required:
    - Copy of existing lease
    - Provide evidence of 2 months of receipt
        - Acceptable evidence includes:
            - First month's rent + security deposit, **or**
            - First and second month's rent.
    - The subject property must have either just completed renovations and is supported in the appraisal or ended a previous lease to be eligible to use a new lease to qualify.

Short-Term Rental

Short-term rentals are properties leased on a nightly, weekly, monthly, or seasonal basis (e.g., Airbnb, VRBO, FlipKey). Short-term rental income is permitted for both purchase and refinance transactions when allowed by the DSCR Matrix.

DSCR Calculation

- Monthly gross rents must be calculated using a 12-month average to account for seasonality.
- Gross rents must be reduced by 20% to reflect typical short-term rental operating expenses (cleaning, advertising, furnishings, turnover, etc.).
    - If documentation shows actual expenses, compare them to the 20% factor:
        - If actual expenses < 20%, apply the minimum 20% reduction.
        - If actual expenses > 20%, use the actual expense percentage.
- DSCR Formula:
  (Gross Rents × 0.80) ÷ Starting Payment = DSCR
- No other income sources may be added to the DSCR

Acceptable Methods to Determine Gross Monthly Rental Income

Any of the following documentation types may be used:

1. 1007 / 1025 / STR Rental Rate Analysis

- A 1007, 1025, or STR Rental Rate Analysis prepared by the appraiser may be used to determine market rents.
- If long-term market rent is used instead of STR rents, do not apply the 20% expense factor.

2. 12-Month Third-Party Rental/Management Statement

- Must show:
  - Subject property/unit,
  - 12 months of rental income collected,
  - All management fees.
- Management fees must be excluded from rental income.

3. AMC Provided STR Analysis-Provided STR Analysis

- A short-term rental analysis prepared by the same AMC that completed the appraisal.
- Reports from independent providers (e.g., outside AirDNA uploads) are not permitted.

4. 12-Month Bank Statements (Borrower Deposits)

- Borrower may provide 12 months of bank statements showing short-term rental deposits.
- Must include rental records supporting the deposits and identifying the subject property.

5–8 Unit Properties

This section outlines all requirements applicable to 5–8 unit residential properties. For items not addressed here or in the 5–8 Unit Matrix, refer to the main guidelines.

Loan Term & Program Restrictions

- Maximum loan term: 30 years.
- Delayed financing is not permitted.

Borrower Experience

- Experienced investors only. Borrower must have owned and managed commercial or nonowner occupied residential real estate for at least 1 year within the past 3 years.
- First-time investors or first-time homebuyers are not eligible.

Occupancy

- Borrower and borrower's immediate family may not occupy any unit within the property.

Property Income Analysis

- Minimum required DSCR: ≥ 1.00.
- DSCR formula: **Eligible Monthly Rents ÷ PITIA**
  (Use ITIA for interest-only loans.)
- Leased units: Use the lower of the market rent or lease agreement.
- Vacant units: Use 75% of market rent, with a maximum of 2 vacant units permitted.
  - A unit is not considered vacant if any of the following can be documented:
    - Evidence of recent renovations, or

  - The unit was recently used as a primary residence, or
  - Proof that the prior tenant recently vacated and the unit has an active rental listing on the market.

- Reduce qualifying rents for any management fee noted in the appraisal.
- Copies of all existing leases required for both purchase and refinance.
- For month-to-month leases: Provide 2 most recent months of rent receipts to evidence continuance.
- If lease documentation cannot be met: Use 75% of market rent.
- **Short-term rental income is not eligible.**

*Refer to Appraisal, Survey and Insurance section for appraisal and insurance requirements

PROPERTY ELIGIBILITY & TYPES

Appraisal Types

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used when applicable:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)
- Commercial Narrative for 5-8 Residential Units or FHLMC 71A

Appraisal Requirements

A full interior/exterior appraisal is required by a licensed appraiser when completing the appraisal report. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465, or 2090 must be used.

Second Appraisal Requirements

A second appraisal from a Sky TPO Funding-approved AMC is required when any of the conditions below exist. When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the 2 appraisals. The second appraisal must be from a different appraiser than the first appraisal.

- Loan amount ≥ $2,000,000
- HMPL (Consumer Purpose Higher Priced) purchase loan that is a flip

Appraisal Review Requirements

An appraisal review is required on all loan amounts under **$2,000,000**.

Acceptable Appraisal Review Options (Loans < $2,000,000)

- FNMA Collateral Underwriter (CU)

- Appraisal review may be waived when the loan is submitted through CU and receives a CU score of 2.5 or lower
- Applicable to single-family residences only
- Appraisal Desk Review (ordered through a Sky TPO-approved AMC)
    - Acceptable products include:
        - Clear Capital – Collateral Desktop Analysis (CDA)
        - 5–8 Unit Residential Properties Only
            - Broker Price Opinion (BPO) required
            - Property survey required

Value Variance Requirements

- If the desk appraisal or BPO value is more than 10% below the original appraised value:
    - The desk appraisal or BPO value will be used
    - Maximum reduction is 20% from the original appraised value
- If the variance is greater than 20%, may not be permissible unless authorized by CU2 collateral acceptance If the variance is 10% to 20% and the value is being contested:
    - A field review may be ordered
    - The higher of the field review value or the CDA value will be used

Final Appraised Value

- The final appraised value used for qualification will default to the lowest supported value.
- When a field review supports a higher value than the CDA, the field review value may be used.

Documentation Requirements

- Any discrepancies between valuation sources (original appraisal, desk review, CDA, BPO, or Field Review) must be documented, addressed, and retained in the loan file.

Appraisal Transfer Requirements

Consumer

Sky TPO will accept a transferred appraisal with the following requirements:

- The appraisal must have been completed by an appraisal management company (AMC).
- Appraisals must be less than 120 days old from the Promissory Note date. An appraisal update (1004D) may be provided to extend the appraisal from 120 days to 180 days of the Promissory Note date.
    - If the 1004D indicates a decline in the market value from the original appraisal effective date, a new appraisal must be completed.

- Original lender to provide a signed/dated appraisal transfer letter on their letterhead stating the following:
    - Letter must transfer ownership and rights for the specific appraisal to Sky TPO
    - Letter to reference the borrower's name and subject property address
    - Letter must include lender certification that the appraisal complies with federal, state, and Freddie Mac Appraisal Independence Requirements (AIR)
- Sky TPO must receive confirmation of the borrower's receipt of the appraisal at least 3 business days prior to closing.
- Provide Sky TPO with a copy of the appraisal invoice
- Provide a full color, PDF-formatted copy of the appraisal including any and all schedules and 1004D, if applicable

Business Purpose

- The appraisal must be completed by an appraisal management company (AMC).
- The appraisal must be less than 120 days old as of the Promissory Note date.
- An appraisal update (1004D) may be used to extend the appraisal from 120 days to 180 days.
    - If the 1004D indicates a decline in market value from the original appraisal effective date, a new appraisal is required.
- A copy of the appraisal invoice must be provided to Sky TPO.

IMPORTANT:
Sky TPO cannot request revisions, corrections, or updates to the appraisal. All changes must be requested directly by the broker, and the broker must provide Sky TPO with the updated appraisal prior to final approval.

Transferred Appraisal with No AMC

The policies below apply to all Non-QM loans originated or purchased by Sky TPO and to appraisals prepared in the name of external brokers.

Acceptance Criteria

Sky TPO may accept an appraisal prepared for another broker when all conditions below are met:

1. **Appraisal Board Panel Requirements**
    - Originating broker must use a compliant appraisal panel or licensed AMC.
    - Panel must meet FIRREA, USPAP, and applicable state requirements.
2. **Normal Course of Business**
    - Appraisal must have been ordered and used by the originating party in normal lending operations.
    - Appraisals ordered solely for transfer, resale, or accommodation purposes are not permitted.
3. **Independence**
    - Appraisers must be independent with no conflict of interest.

- Appraisal must be free from influence or bias.

Required Documentation

The following must be obtained and retained:

- Appraisal report signed by a state licensed or certified appraiser, USPAP compliant
- Letter of transmittal or assignment to Sky TPO
- AMC or appraisal panel approval from Sky TPO prior to acceptance
- Appraiser independence certification
- Original SSRs and matching XML file
- Verification that the originating broker's appraisal panel meets regulatory requirements
- Evidence that the borrower received the appraisal at least 3 business days before closing (Reg B)

Appraisal Requirements

Minimum Square Footage

- Single family residence: minimum 600 square feet
- Condos: minimum 400 square feet
- 2-8 units: minimum 400 square feet per individual units

Personal Property

Any personal property transferred through a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Escrow Holdbacks

Escrow holdbacks are not permitted.

Subject Property Analysis

The subject property section of the appraisal report must include the following:

- Identify and describe the location of the subject property. The appraisal must identify the subject property by its complete property address and legal description.
- When the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report or may provide the subject's tax ID parcel number
- Provide information about property taxes and special assessments
- Indicate the occupancy status of the property
- Describe the property rights appraised
- Summarize financing data and sales concessions
- Identify the borrower, the current owner, and the appraiser

Neighborhood Analysis

The neighborhood section of the appraisal report must contain an accurate description of the subject neighborhood and the factors that influence market value and marketability in the neighborhood. The actual neighborhood area being considered should be clearly defined using street names and other recognizable boundaries.

The sales price of comparable properties in the identified area should reflect positive and negative influences in the neighborhood. The analysis should consider the effect of social, economic, governmental, and environmental forces on property values. The information presented in the neighborhood description must be consistent with, and supported by, the conclusions reached by the appraiser throughout the appraisal report.

Present Land Use

The present land use, the predominant occupancy composition, and the likelihood that will change, must be analyzed to determine whether a neighborhood is undergoing transition. The appraiser must comment on any change in land use.

The relative percentages of developed land should be shown; underdeveloped land should be shown as vacant. Any unusual situations or types of land use should be mentioned in the comment section. The total types of land use must equal 100%.

Demand, Supply, and Marketing Time

Any increase or decline in the market must be detailed. The marketing time of the subject must reflect the current trend for the area and the subject property. Marketing time over 6 months must be explained in detail to determine the effect on marketability.

Property Marketability Factors

Properties that have unique physical features are physically deteriorated or exposed to value and marketability issues may require credit risk approval and may result in a reduction of value or declination of the loan.

Examples of marketability factors that could adversely affect the acceptability of the property are:

- Atypical physical characteristics and construction type/quality
- Economic changes in market conditions
- Environmental risk hazards (toxic)
- External or functional obsolescence
- Geological conditions: properties currently or potentially suffering from significant site distress or erosion due to local geological conditions
- Inadequate ingress and egress
- Public utilities or services: properties that lack typical city or county services and necessary utilities, including water electricity, heating, and sewage disposal
- Properties in remote locations
- Unique properties that do not conform to the local market and require longer marketing times such as over-improved or super adequacy properties

- Zoning changes: identified recent or pending zoning changes which would have a short-term negative or de-stabilizing impact on residential market values

Site Value

The estimated site value must be included for all detached properties. If the appraiser's estimate of the site value is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

Multiple Parcels

A property that consists of two or more parcels of land with one legal description reflected on the title policy is acceptable collateral.

- The appraised value must be based on all parcels of land.
- All existing parcels must be contiguous and encumbered by the subject loan.
- The appraisal should include comparable sales similar to the subject property.
- Additional parcels with no improvements must be valued as excess land only.
- The mortgage must include all parcels as collateral.
- Site Area Maximum Acreage; Review product matrix for details.
- Refer to matrix for the total maximum acreage allowed.
- Appraisal must provide a value for the entire size of the property.
- Comparable sales should support larger parcels as common for the area.

Site Utilities

The minimum requirements for water sources, sewers, and electricity may include:

- Public water, private wells, shared wells with a recorded agreement, or common stock in a private water company with a recorded water stock certificate. Cistern water is acceptable on a case-by-case basis.
- The appraiser must provide recent comparable sales of properties that use cistern water that are in close proximity to the subject property.
- An internal appraisal review is required.
- Public sewer or private septic systems (cesspools): Private septic systems (cesspools) must be typical for the area and supported by comparable sales with similar septic systems.
- Public electricity only. Properties relying on solar systems or generators for electricity except as backup systems are not allowed.

Street Surfaces and Private Roads

Publicly maintained paved or all-weather dirt roads or private road access is acceptable, if common for the area. A road maintenance agreement is required for private road access for properties not located in a PUD. If no road agreement is in place, provide a copy of the last road clearing/maintenance bill. If the subject is on an all-weather dirt road, similar comparable sales must be utilized to support marketability and value.

The presence of sidewalks, curbs, gutters, streetlights, and alleys depends on the local codes and regulations of the city or local municipality. If such improvements are required in the community, they must be present.

Ingress and Egress

A property that is landlocked is not allowed. Private road access must have easements on record allowing access to and from subject property to a public street (ingress and egress) and must be insurable by the title insurance company.

Zoning Classification

The appraisal report must indicate the specific zoning classification for the subject property and a general statement to describe what the zoning allows (e.g.: “R-1 single-family” vs. “residential,” R-2 “two-family, "C1-commercial", etcetera). For areas where there is no local zoning, the report should indicate so.

The appraisal report should contain a statement indicating whether the site’s improvements represent a legal use of land. Loans secured by property with improvements that are not legally permissible are not acceptable.

A 1–4-unit property that represents a legal, but non-conforming use of the land must include the appraiser’s analysis regarding any adverse effect(s) that the non-conforming use has on the property’s value and marketability and comment on the highest and best use.

Properties with interim use or a highest and best other than residential are not acceptable. All properties with Interim Use require a 100% rebuild letter from the local municipality. For a unit located in a condominium or attached PUD project the rebuild letter must indicate that the project may be rebuilt to its current use and density with no restrictions. In instances where a property’s land value exceeds the loan amount sought by 120%, a rebuild letter is not required.

NOTE: PROPERTIES WITH INTERIM (GRANDFATHERED) USE WITHOUT 100% REBUILD LETTER, OR PROPERTIES REPORTED TO HAVE A DIFFERENT HIGHEST AND BEST USE THAN THE PRESENT USE ARE NOT ELIGIBLE FOR FINANCING.

Improvements

Over-Improved or Super-Adequate Properties

Properties that are considered over-improved or super-adequate for the neighborhood require a detailed explanation from the appraiser. The appraiser should attempt to utilize recent sales of similar properties (over-improved or super-adequacy) from the subject's market area, if available. If recent sales of such properties are not available, the appraiser should utilize recent sales that are typical for the subject's market area and make the appropriate adjustments for functional obsolescence based on the market’s reaction to the property.

Effective Age vs. Actual Age

The relationship of the effective age to actual age is a good indicator of property condition. A property that has an effective age higher than the actual age probably has not been well maintained. In such cases, the condition of the property must be carefully analyzed.

Parking

Adequate off-street parking must be available for the subject property. The property should provide adequate parking that is typical for the neighborhood. Off-street parking for one car is considered acceptable, unless the property is in an area where no off-street parking is typical.

Above-Grade Room Count

The appraiser must be consistent when calculating the above-grade room count and square footage of the gross living areas. For a condominium, the appraiser should use the interior perimeter unit dimensions to calculate gross living area. In all other instances, the exterior building dimensions should be used. Only finished above-grade areas should be counted; garages and basements should not be included.

A room that is not included in the above-grade room count may add substantial value to the property; therefore, the appraiser should report the basement area and other partially below-grade areas, including the room count, separately and make appropriate adjustments for them in the Sales Comparison Analysis Section.

Cost Approach

The cost approach to value is not required; however, where completed, all forms of depreciation applicable are required and must be explained.

Site Value

Where applicable, the estimated site value should include the cost approach for all detached properties. If the site value is more than 50% of the total value, the appraiser should include comments as to whether this is common for the subject property market area. If the appraiser's estimate of the site value is one that is not typical for a comparable residential property in the subject property's market area, the appraisal must include comments on how the variance affects the marketability of the subject property.

Remaining Economic Life

The estimated remaining economic life of the property must be included when the cost approach is completed. The estimated remaining economic life of the subject property must be no less than the term of the new loan.

Sales Comparison

At least 3 verified closed sales of comparable properties must be analyzed in the appraisal report, with adjustments made for significant differences between the comparable sales and the subject property.

Sales Comparison Selection Criteria

The 3 comparable sales listed in the report must meet the following criteria:

- Must be similar in property characteristics including square footage, room count (bedroom/bath count), design/appeal, construction, condition, amenities, site, etc.
- Urban and suburban properties must be measured in city blocks.
- Must be near the subject property. Outlying suburban and rural properties generally should not be more than 5 miles from the subject property without adequate explanation from the appraiser.

- Be recently sold (usually no more than 6 months before the date of the appraisal). Multiple listings from the market area are also recommended in areas where current closed sales may be difficult to obtain. The use of an older comparable sale must be justified by the comments in the appraisal report. The use of comparable sales over 12 months old must include an extensive explanation from the appraiser and will require credit risk review.
- The comparable sales prices should bracket the estimated value of the subject property.
- If adverse conditions affect the subject property, at least the same type of adverse condition must affect 2 of the comparable sales.

In areas where there are certain styles/types of properties that may be typical for the area such as A-frame home, split level homes, daylight basements, etc., the comparable utilized must be similar, in the market area, and represent the current market conditions for the time of sale.

Adjustments to Comparable Sales

Each comparable sale must be analyzed for similarities and differences between it and the subject property.

The appraisal must include appropriate adjustments for differences and indicate the dollar amount of the adjustments. Comparable sales must be adjusted to the subject property. Time adjustments must reflect the time that elapsed between the contract date for the comparable sale and the effective date of the appraisal of the subject property.

Excessive and Multiple Adjustments

Excessive and multiple adjustments could indicate that the comparable chosen were not suitable for accurately evaluating the property. The appraiser must "bracket" the comparable so that the property can be analyzed using both higher and lower priced homes.

UNSUPPORTED TIME ADJUSTMENTS ARE NOT ACCEPTABLE.

Appraiser's Comments

The appraiser's comments should reflect the reconciliation of the adjusted or indicated values for the comparable sales and identify which were given the most weight in arriving at the indicated value for the subject property.

Any additional features, necessary repairs or modernization, or physical, functional or external inadequacies must be reported in the comment sections of the appraisal report.

Declining Market

Refer to Matrix

Unique Properties

Unique Property Features

A dwelling with an unusual layout, peculiar floor plan, or inadequate equipment or amenities usually has limited market appeal and should not be considered for maximum financing.

The appraiser should comment on any functional obsolescence, negative impact on the marketability, or buyer resistance as a result of the unique property features.

Unique properties require credit risk review:

- Appraisal Field Review is required, regardless of LTV
- Unique properties must be compared with other unique properties in the area
- The property must be in average or better condition
- The property must have adequate heating and water sources
- The appraised value must be based on a marketing time of no more than 6 months
- The property must meet all other property requirements and may be subject to an LTV reduction or declination

Environmental Hazards

Any known environmental hazard in or on the subject property, or in the vicinity of the subject property must be disclosed to the appraiser. The appraiser must consider any influence the hazard may have on the property's value and marketability. These hazards may be found on the Sales Contract/offer to purchase, or communicated by the seller of the property, the buyer, the real estate broker, or local governments. Upon discovery of any hazard, the appraiser must review for any suggested corrective action.

The appraiser must comment on any effects of adverse environmental hazards discovered on or near the site.

Toxic Waste

- Properties within 1 mile of a federal super fund site will require a Phase I Report. Based on the results, further analysis or reports may be required.
- Properties that abut or are adjacent to a known toxic site will require full disclosure and may require further analysis or a Phase I report.

Building Permits

Conversions and additions are acceptable as long as the appraiser comments that the work has been completed in a workman-like manner.

The appraiser must also comment if the improvements are functional and conform to the original quality of construction. If the above is satisfactory, the square footage can be included in the GLA.

Existing Construction

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as-is." These items must be reflected in the appraiser's opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs.
- These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, a 1004D Final Inspection is required.

- Permanent and functioning heat source: A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

Accessory Dwelling Units (ADU)

An accessory unit is typically an additional living area independent of the primary dwelling unit that includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a 1-unit property with an accessory unit or a 2-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented.

The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

Permitted ADU's

- Appraisal demonstrates the improvements are typical for the market through an analysis of at least two comparable with similar additional ADU's
- Property must conform to all zoning laws/regulations and/or legally permitted.
- The appraisal must include a description of the ADU and an analysis of any impact to the value or marketability of the subject property.
- Rental income may be considered when the permitted ADU's meet the following:
    - Refinance-Market rent for the ADU should be documented on FNMA form 1007 and file must include a copy of the current lease (use lower of the two).
    - Purchase- The market rent for the ADU should be documented on FNMA form 1007 and the file must include a copy of lease with verification of receipt of the security deposited to borrower's account. If no lease/deposit available, 1007 can be used to determine the gross market rent.
    - Note- Qualifying rental income will be gross rent x 75% to account for vacancy losses.
    - Note- Owner occ/2nd home: Income from ADU's may not be considered as qualifying income.

Unpermitted ADU's

- ADU is not required to be permitted provided the appraiser indicated the improvements represent a legal use of the property and completed in a workmanlike manner. Not applicable in NY.
- Appraisal must indicate market acceptable that would contribute to the value of the subject property by providing analysis of at least 2 comparables with similar additional ADU(s).
- If market acceptance of the non-permitted area is not demonstrated the appraiser must include a cost to cure to restore subject property to its legal permitted use and deduct from conclusion of value for subject property.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Note: Rental income may not be considered on an unpermitted ADU.

If the property contains an ADU, the property is eligible under the following conditions:

- The property is defined as a 1-unit property with an ADU

- MULTIPLE ACCESSORY UNITS ARE NOT PERMITTED BUT WILL BE CONSIDERED FOR AN EXCEPTION PROVIDING THE FOLLOWING ARE MET:
    - MARKETABILITY POSES NO ISSUES
    - PROPERTY TO BE ADEQUATELY COMPED WITH MULTIPLE ADU'S.
    - APPRAISER TO ADDRESS QUALITY, BUILT IN WORKMAN LIKE MANNER WITH NO HEALTH AND SAFETY IMPLICATIONS.
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable properties with the same use.
- Rental income may be used for the accessory unit subject to the following:
    - Appraisal to reflect zoning compliance is legal.
    - Permit is not required to establish zoning compliance.
- Refinance: The market rent for the accessory unit should be documented on FNMA Form 1007, and the file must include a copy of the current lease agreement with 2 months' proof of current receipt. Follow FannieMae.
- Purchase: RENTS ALLOWED FROM A PERMITTED ADU. Follow FannieMae .
- Borrower may not occupy the ADU on Business Purpose transactions.

Outbuildings

All outbuildings (e.g. barns, stables, arenas, workshops, guesthouses, etc.) must be described in detail in the appraisal report. Value for outbuildings may be considered if:

- Legal use and affixed to a permanent foundation
- Not being used for commercial or business purposes that would conflict with the residential use of the property; and
- Typical for the area as evidenced by comparable sales with value given for the same or similar type of outbuildings.
    - If outbuildings are not typical for the area and they are not supported by comparable sales with similar outbuildings, no value will be given.

Property Condition

The appraiser must report on the condition of the improvement in factual terms. Items rated less than average (inferior) in competing properties of the subject's market area generally result in buyer resistance. The appraiser must comment on these items, the reasons for such ratings, and how they affect the marketability and value of the subject property.

Any property condition rating that is less than average or C5/C6 rating must be properly conditioned and brought to average or better condition prior to closing.

Work In Progress/Subject to Completion

Any work in progress subject to completion must be completed and a Satisfactory Certificate of Completion FNMA Form 1004D with photos must be included in the loan file.

A property with ongoing or recently completed work may be liable to a mechanic's lien(s); an Extended Title Policy specifically covering potential mechanic's liens will be required.

Deferred Maintenance

A property may be rejected as security for a loan if signs of deferred maintenance exist on the appraisal.

Properties that include certain appraiser conditions, subject to items, or deferred maintenance must be described in detail. The appraiser must include the cost to cure to determine the nature of the repairs. The appraiser's comments should address any threat to an occupant's health, safety, and habitability.

Licensed contractor bids are required for all repair items. All repair items must be completed and a Satisfactory Completion Certificate FNMA Form 1004D with photos must be obtained.

A property that is being used to store old cars, auto parts, appliances, debris scattered throughout the site, excessive amounts of trash, unkempt yard with overgrown trees, shrubs, and weeds, should be cleared. A Satisfactory Certificate of Completion FNMA Form 1004D with photos must be obtained.

Minor or Cosmetic Deferred Maintenance

Deferred maintenance items that are considered minor and cosmetic and do not affect the safety, structural integrity, mechanical systems, or habitability of the improvement may not need to be repaired. Minor cosmetic items may include as a non-exhaustive list of examples: interior or exterior painting, worn carpet, worn linoleum, minor patching, replacement of fixtures, minor clean up items, or minor landscaping. While these items are not required to be cured or repaired, a cost to cure must be established on the appraisal.

The total cost of the repairs may not exceed the greater of $5,000 or 3.0% of the property's value or they may need to be completed.

C5 PROPERTIES MAY REQUIRE MINOR AND/OR COSMETIC DEFERRED MAINTENANCE TO BE COMPLETED.

Health and Safety Issues

All items that have been identified as potential health and safety issues by the appraiser or Sky TPO must be satisfactorily addressed or resolved. A Satisfactory Certificate of Completion FNMA Form 1004D including photos of the repaired items prior to closing is required.

Health and safety issues may include as a non-exhaustive list of examples: a broken window, empty pool without appropriate fencing, security bars not equipped with safety release latches, upper-level doors with no balcony, missing railings, broken steps, missing handrails on steps/stairs consisting of 6 or more steps, major electrical, and plumbing repairs.

Security Bars

For health and safety reasons, a property with security bars on the windows and/or doors should be equipped with safety release latches. The appraiser must comment on whether the security bars have safety release latches. A property that has a minimum of 3 unobstructed exits will not require safety release latches on the security bars, unless required by the local municipality.

Heat Source

The subject property must have an acceptable heating source based on local health and safety codes. A permanent ventilated source of heating is required except in areas where heating is not required.

Structural Deferred Maintenance

Structural items are not covered in the cosmetic rule. Structural items can be roofing, internal plumbing, electrical, or anything that affects the "bone structure" of the house. Items like termite damage, wood rot, roof leaks, broken windows, door damage, gross ceiling or wall damage, unstable or non-level floors, foundation problems, basement leaks, or major exterior wall problems are further examples of structural deferred maintenance.

Properties with structural damage will not be acceptable unless repaired. Structural concerns require a satisfactory structural report. The repair items must be corrected and a Satisfactory Certificate of Completion FNMA Form 1004D including photos of the repaired items prior to closing is required.

In the event the work is completed by a third-party contractor, appropriately licensed to complete the work required, a signed statement of work and pictures showing the completed work to document satisfaction may be considered. The file should document the contractor is paid for said work or can pay through closing funds.

Reconciliation of Value

The reconciliation must contain any conditions of the appraisal on which the final estimate of value is based. The rationale in the final reconciliation must be consistent with the comments, conclusions, and assumptions stated throughout the appraisal report. The appraiser must indicate if the appraisal is made “as-is” or “subject-to” repairs or completion.

The report must state that the current FNMA form 1004B is attached and must contain:

- Date of the value estimate
- Estimate of market value
- Appraiser’s name and original or digital signature
- Appraiser’s state certification or license number
- A statement that the appraisal was prepared in accordance with the requirements of Title XI of the Financial Institutions, Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended (12 U.S.C. 3331 et seq.)

Value Conclusion

The value conclusion must be well supported and documented. All approaches to value must be reconciled except on properties where certain approaches to value may not be applicable.

Flip Transactions

A transaction is considered a “flip” when the seller is reselling a property within 180 days of acquiring it, and the new sales price increases more than 10% over the seller’s acquisition cost.
The 180-day period is measured using:

- **Acquisition date:** the date the seller became the legal owner; and

- **Purchase agreement date:** the date both buyer and seller executed the contract.

Flip Transaction Requirements

All flip transactions must meet the following conditions:

- **Arm's length requirement:**
  The transaction must be fully arm's length, with no identity of interest between buyer, seller, or any other party involved.
- **No pattern of flipping:**
  The seller must not have engaged in repeated flipping activity over the previous 12 months.
  Acceptable exceptions include:
    - Newly constructed properties
    - Sales by government agencies
    - Inherited properties
    - Divorce related property transfers-related property transfers
    - Sales by the holder of a defaulted loan (case-by-case)
- **Open, fair marketing:**
  The property must have been marketed through documented channels such as:
    - MLS
    - Auction
    - FSBO listing
    - Developer/builder marketing
- **No contract assignments:**
  Assignments to a new buyer are not allowed.
- **Sales price exceeding appraised value:**
  If the purchase price exceeds the appraised value by more than 5%, obtain a signed borrower acknowledgement letter.
- **Renovation/Improvement documentation:**
  The seller must provide sufficient documentation evidencing actual renovation or construction costs, such as:
    - Purchase contracts
    - Plans/specs
    - Receipts
    - Invoices
    - Lien waivers
    - Other verifiable cost documentation

NOTE: Auction and FSBO properties appraised for <=$1,000,000 will not require evidence of renovation, subject to acceptance of value by collateral underwriter.

Second Appraisal Requirements

- The second appraisal must be completed before the Promissory Note date.

- A copy of the second appraisal must be provided to the borrower (normal delivery timing requirements apply).
- Must be ordered through Sky TPO - approved AMC.

Timing Rule

All timeframes must be calculated from:

- The date the seller became the legal owner, and
- The date of the purchase agreement was fully executed by all parties.

Rural Properties

A property is defined as rural when both of the following exist:

- 2 of the 3 comparable properties are more than 5 miles from the subject property
- Less than 25% of the surrounding area is developed

Disaster Areas

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at https://www.fema.gov/disaster/declarations. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.

Guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

Appraisals Completed Prior to Disaster Event

An exterior inspection of the subject property is required on disaster area inspection report (DAIR) or a 1004D.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition as the previous inspection, and marketability and value remain the same.
- The inspection report must include photographs of the subject property and street view.
- Any damage must be repaired and reinspected prior to purchase

Appraisals Completed After Disaster Event

- The appraiser must comment on the adverse event and certify that there has been no change in the valuation.
- Any existing damage notated from the original report must be repaired and reinspected prior to purchase.

LOANS WILL NOT FUND/CLOSE UNTIL THE ABOVE INSPECTIONS ARE COMPLETED.

5-8 Unit Appraisal Requirements

A **full interior inspection appraisal** is required for all units.

The appraisal must use the Sales Comparison Approach for value determination. A narrative report may be used and must include repeat-sales analysis. A 71B appraisal is also acceptable.

Required Appraisal Attachments

- Rent roll
- Income and expense statement
- Interior and exterior photos, plus street scene
- Aerial photo
- Sketch or floor plan of typical units
- Map
- Plot plan or survey
- Appraiser qualifications

Property Condition Requirements

Property must have:

- No fair or poor ratings
- No environmental hazards (e.g., dry cleaning chemicals, laundromat hazards)
- No health or safety issues (broken steps, windows, etc.)
- No excessive deferred maintenance
- No structural deferred maintenance (foundation, roof, electrical, plumbing)
- Minimum 400 sq. ft. per unit

Unleased Units

- Maximum of 2 vacant units permitted.

Eligible Property Types

- Residential 5–8 units, maximum 2 acres.

Mixed use properties are not allowed.

Appraisal Review Requirement

A commercial sales and income BPO is required.

- The appraisal value is acceptable if the BPO value is not more than 10% below the appraisal.
- If the BPO value is more than 10% below the appraisal, the BPO value is used for LTV calculations.
- Pennsylvania and North Carolina: A Commercial Evaluation Product replaces the BPO requirement.

Ineligible Property Types

- Agricultural properties with working farms, ranches, and orchards
- Manufactured
- Mobile Home
- Appraised condition rating of C5 or C6, Considered on a case-by-case basis
- Assisted living facilities

- Addiction Recovery or Rehabilitation facilities
- Barndominiums
- Boarding houses, homes that rent out by the room, temporary living, or bed/breakfast properties
- Co-op/timeshare
- Condo cooperative share loans
- Dome or geodesic homes
- Homes on Indian reservations, Indian Leased Land
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Log homes
- Mixed-Use & Commercial properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Properties with zoning violations
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Vacant land or land development properties
- Container homes

Flood Certificates

Life of Loan Flood Certificates are required for all first liens. A copy of the flood certificate must be included in the loan file. All subject properties requiring flood insurance must include an insurance policy that is in compliance with HFIAA and an escrow/impound account for the insurance premium.

Survey

Required on:

- New Construction
- Residential 5-8 Unit
- Texas, Florida, any other state where title is placing a survey exception on title

CONDO REQUIREMENTS

All condominium projects must be evaluated first for warrantability status under Fannie Mae standards. Eligibility, documentation, review type, and loan terms are driven by whether a project is Warrantable or Non-Warrantable, as outlined below.

I. Warrantable vs. Non-Warrantable Condominium Determination (All Loans)

A. Warrantable Condominiums

A condominium project is considered **warrantable** when it meets all applicable Fannie Mae eligibility requirements, including but not limited to:

- Compliance with federal, state, and local laws
- Acceptable levels of commercial space (per applicable addendum)
- Acceptable HOA delinquency, ownership concentration, and reserve funding
- No disqualifying litigation or deferred maintenance issues
- Adequate insurance coverage meeting Fannie Mae standards

Warrantable projects may be eligible for review waivers, limited reviews, or full reviews, depending on project characteristics, loan type, and occupancy.

B. Non-Warrantable Condominiums

A condominium project is considered non-warrantable when it does not meet one or more Fannie Mae warrantability criteria. Non-warrantable characteristics may include, but are not limited to:

- Excess commercial space
- Higher investor concentration
- Elevated HOA delinquency rates
- Pending litigation (subject to review)
- Reduced reserve funding
- Condotel or hotel-managed operations (where permitted)
- High single entity ownership

Non-warrantable condominiums:

- Always require a full condominium review
- Are subject to expanded eligibility criteria and additional documentation per guidelines
- May be permitted only for specific loan types, as defined in the applicable addendum

Projects that fail to meet even expanded non-warrantable criteria are ineligible.

II. Project Eligibility Criteria (Applies to All Loans)

A. Legal and Project Status

- The project must be legally created and exist in full compliance with all applicable federal, state, and local laws and regulations.
- The condominium project must have addressed any issues related to safety, soundness, or habitability. Additional documentation may be required based on the circumstances.
- If the project is defined as new by Fannie Mae, the subject phase must be 100% complete, including all common elements.
- Ground Lease (leasehold) -Refer to Leasehold section

B. Physical Characteristics

- Minimum unit size: **400 square feet**
- Common areas and facilities (including parking and recreational amenities) must be complete

C. HOA Financial and Ownership Standards

- No more than 20% of units may be 60 or more days delinquent on HOA dues or any special assessments.
- No single entity, borrower, or investment group may own more than 30% of the total units in the project.
- For full condominium reviews, the HOA budget must reflect a minimum 10% reserve allocation of total assessments, unless otherwise permitted under non-warrantable guidelines.
- Mortgagee may not be responsible for delinquent HOA dues that exceed Fannie Mae requirements.

D. Commercial Use

- Commercial use within the project is limited and must comply with the applicable addendum.

E. Litigation

- Pending litigation requires:
  - A copy of the complaint, and
  - Written confirmation from the insurance carrier or HOA's Attorney that it is providing defense and coverage.
- Waive documentation requirements for minor matters such as slip-and-fall claims, foreclosure actions, or other non-monetary disputes.

F. HOA Control and Legal Documents

- HOA control should be transitioned to unit owners – (not required for new construction)
- For new projects, legal documents must include language that:
  - Establishes mortgagee rights in the event of foreclosure
    - Refer to FNMA for all new construction legal requirements
  - Defines the conditions under which homeowners assume control of the HOA.

III. Condominium Review Types (All Loans)

A. Condominium Review Waiver – Eligible Property Types

- Detached (Site) Condominiums
- 2–4 Unit Condominiums

Projects using a review waiver must maintain adequate insurance coverage, including:

- Master building insurance with replacement cost coverage
- HO-6 coverage (if walls-in coverage is not provided by the master policy)
- Flood insurance, if applicable

B. Limited Review Requirements

- All units, phases, common elements, and amenities must be 100% complete.
- At least 90% of units must be sold and closed.

- HOA control must be fully transitioned to unit owners.
- Completed, signed, and dated condominium questionnaire.
- Required insurance coverage as outlined in Section IV.

C. Full Review Requirements

- Completed, signed, and dated condominium questionnaire.
- Current year approved HOA budget.
- Master insurance including:
    - Building coverage at replacement cost
    - Ordinance or Law coverage (Coverages A, B, and C)
    - Inflation Guard
    - Liability coverage of at least $1,000,000 per occurrence (with Separation of Insureds)
    - Fidelity bond (including management agent coverage), if applicable
    - Flood insurance, if required

IV. Insurance Requirements (All Loans)

- Borrower must carry HO-6 insurance covering interior improvements, betterments, and fixtures when not covered by the master policy.
- Fidelity bond coverage is required for projects with more than 20 units, in an amount equal to the greater of:
    - Three months of HOA dues or reserves, or
    - The minimum required by state law.
- Maximum allowable deductible for all required insurance perils is 5% of the face amount. (Non-Warrantable allows for 10%)
- Condominium associations located in Special Flood Hazard Areas must maintain an NFIP RCBAP policy in accordance with NFIP limits.

V. Ineligible Condominium Projects (All Loans)

Projects are ineligible if they include, but are not limited to:

- Timeshare, segmented, or fractional ownership structures
- Condotels or hotel-managed projects (unless expressly permitted by addendum)
- Projects with non-incidental business operations owned or operated by the HOA
- Manufactured home, houseboat, or assisted-living projects, Cooperatives, & Condops, & live-work
- Projects with deferred maintenance, critical repairs, or unresolved safety directives
- Projects subject to SEC regulation or private transfer fees that do not benefit the HOA
- Projects lacking required insurance policies

Addendum A – Consumer Loans (Primary Residence and Second Home)

The following provisions apply **only to Consumer Loans** and supersede the Master Policy where noted.

A. Occupancy

- Eligible occupancy types:
  - Primary Residence
  - Second Home

B. Commercial Space Limitation

- Commercial space may not exceed **40% of the total project square footage**.

C. Limited Review LTV Parameters

- Primary Residence (Outside Florida): **≤ 75% LTV**
- Second Home (Outside Florida): **≤ 70% LTV**
- Florida (Primary and Second Home): **≤ 70% LTV**

D. State-Specific Requirements

- **Florida Condominiums:**
  Structural inspections will **not** be automatically required based on project age, height, or proximity to the coast. However, if a recently completed engineer's report (within the past three years) is available **or** there is evidence of critical repairs, deferred maintenance, or safety-related concerns, the applicable documentation will be conditioned for review.
- **California Condominiums:**
  SB 326 inspection requirements will not be automatically required as part of the condominium review. If a recently completed engineer's report (within the past three years) is available or there is evidence of critical repairs, deferred maintenance, or safety-related concerns related to exterior elevated elements or overall structural integrity, the applicable documentation will be conditioned for review.

E. Condotels

- Condotels are **not permitted** for Consumer Loan transactions.

Addendum B – Business Purpose Loans (Investment Properties)

The following provisions apply only to Business Purpose Loans and supersede the Master Policy where noted.

A. Occupancy

- Eligible occupancy type:
  - Investment Property only

B. Unit Configuration

- Each unit must include:
  - A full-size kitchen, and
  - At least one separate bedroom.

- ITIN-DSCR loans require a minimum unit size of 600 square feet.

C. Commercial Space Limitation

- Commercial space may not exceed 50% of the total project square footage.

D. Limited Review LTV Parameters

- Investment Properties (Outside Florida): **≤ 70% LTV**
- Florida: We allow for limited review for projects in Florida, depending on LTV.

E. Condotels and Non-Warrantable Projects

- Condotels are permitted only for investment property transactions and always require a full condominium review.
- Non-warrantable condominiums and condotels are subject to expanded eligibility criteria and are reviewed on a case-by-case basis.

Site Condominiums

All loans secured by condominium projects require a complete HOA questionnaire and condominium review except:

- Site Condominium
- 2- to 4-unit condominium projects will not require a project review provided the following are met:
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage.

If the insurance covers the entire project, it must be sufficient in the event of a total loss.

Hazard Insurance

Evidence of Hazard Insurance

The policy must be effective at the time of closing and not expire for at least 60 days after the date of funding (does not apply to condominium project insurance policies). Rental Loss Coverage is not required.

Evidence of Insurance may be provided in one of the following forms:

- Policy
- Certificate of Insurance (COI)
- Insurance Binder

Evidence of Insurance must provide the following information and be signed and dated by agent:

- Names of borrowers reflect the same as the names on the Promissory Note
- Property address agrees with the Promissory Note/security instrument
- Mailing address is the same as property address for owner occupied.
- Policy Number

- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amounts and deductible
- Loss payee clause as applicable

Hazard Insurance Requirements

Hazard insurance must provide protection against loss or damage from fire, and all hazards included in a standard extended coverage endorsement. Coverage must settle claims on a replacement cost basis and must, at minimum, include:

- Wind
- Civil commotion (including riots)
- Smoke
- Hail
- Damage caused by aircraft, vehicles, or explosion

Policies that limit or exclude windstorm, hurricane, hail, or any other perils normally included under extended coverage are not acceptable, unless the borrower obtains separate coverage (through a commercial insurer or a state-established insurance pool) that fully insures the excluded peril.

Additional requirements apply when the property has third-party owned or leased solar panels, including Power Purchase Agreements or similar arrangements.

Determining the Required Coverage Amount

The lender or servicer must verify that the property insurance coverage amount for a first mortgage secured by a one- to four-unit property is at least equal to the lesser of:

- 100% of the replacement cost value of improvements as of current property insurance policy effective date, or
- the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.

The source that the lender or servicer uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal.

If the coverage amount does not meet the minimum required, coverage that does provide the minimum required amount must be obtained.

The following table provides the steps to calculate the amount of required property insurance coverage.

Step	Description
1	Compare the replacement cost value of the improvements to the unpaid principal balance (UPB) of the loan.
1A	If the replacement cost value of the improvements is less than the UPB, the replacement cost value is the amount of coverage required.
1B	If the UPB of the loan is less than the replacement cost value of the improvements, go to Step 2.
2	Calculate 80% of the replacement cost value of the improvements.
2A	If the result of this calculation is equal to or less than the UPB of the loan, the UPB is the amount of coverage required.
2B	If the result of this calculation is greater than the UPB of the loan, this calculated figure is the amount of coverage required.

Examples:

Category	Property A	Property B	Property C
Replacement Cost Value	$90,000	$100,000	$100,000
UPB	$95,000	$90,000	$75,000
80% of the Replacement Cost Value	—	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

If the policy does not show 100% replacement cost and no replacement cost estimate is included, a processor's certificate verifying the insurer's replacement cost estimate is acceptable. The certificate must:

- Include full insurance company information

- Include subject property details
- Confirm the insurer determined replacement cost amount
- Be signed and dated by the processor

Deductible Requirements

- The maximum deductible for hazard insurance is 5% of the policy face amount.
- If the policy contains a separate wind deductible, it also must not exceed 5% of the policy face amount.

Documentation Timing

The following must be no more than 60 days old as of the Promissory Note date and must be active at closing:

- Hazard insurance policy
- Any required supplemental or separate coverage
- REFINANCES: Hazard Insurance must have a minimum of 60 days remaining on the policy at the time of funding. If less than 60 days of coverage remains at the time of closing, 12 months must be collected to pay the policy in full through the closing.
- PURCHASES: 12 month policy must be effective no later than the date of funding.

Flood Insurance

The property securing the mortgage loan must be adequately protected by flood insurance when required. Flood insurance coverage is required when a mortgage loan is secured by a property located in a Special Flood Hazard Area (SFHA), or a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). (See below for additional information.)

Determine whether the property is located in a SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA. All flood zones beginning with the letter “A” or “V” are considered SFHAs.

The following table describes how to evaluate a property to determine if flood insurance is required. For the purpose of these requirements, the “principal structure” is the primary residential structure on the property securing the mortgage loan.

If...	Then flood insurance is...
any part of the principal structure is located in an SFHA	required.
the principal structure is not located in an SFHA, but a residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	required for the residential detached structure.
the principal structure is not located in an SFHA, but a non-residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the	not required on either structure.
the principal structure is not located in an SFHA, but a detached structure attached to the land that does not serve as part of the security for the mortgage loan is located within the SFHA	not required on either structure.

Acceptable Flood Insurance Policies

The flood insurance policy must be one of the following:

- a standard policy issued under the NFIP; or
- a policy issued by a private insurer as long as the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer.
- A Policy Declaration page is acceptable evidence of flood insurance. **New policies must be paid through the closing. Policies with less than 60 days of coverage remaining at the time of closing, must be paid through the closing.**

Confirmation from the insurance agent is required to document any new policies that may require 30 days to bind the policy.

- **FLOOD INSURANCE APPLICATION WITHOUT DECLARATION PAGE** Insurer to confirm receipt of the application, with no outstanding conditions
- Instruction is provided to the settlement agent to pay the application premium through the closing

Optional Coverage

Hazard insurance policies may include optional coverage(s) which are acceptable but are not required. For example, a “homeowners” or “package” policy is acceptable so long as any part of the coverage that exceeds the required coverage is not obligated for renewal.

5-8 Unit Insurance Requirements

A Commercial General Liability (CGL) blanket policy is required, covering personal injury, bodily injury, death, or property damage occurring on or around the property.

Required coverage:

- Minimum per occurrence: $1,000,000
- Aggregate coverage: $2,000,000
- Policy must be at least as broad as ISO form CG 00 01.
- Policies must provide 12 months of coverage; anything less is not acceptable.
- If the policy expires before the first payment due on the Promissory Note, a renewal policy and invoice for premium collection at closing are required.
- If renewal is pending, a letter or email from the insurance agent confirming renewal is acceptable.

PROPERTY TAXES

CALIFORNIA

Purchase transactions, new construction or pending reassessment on existing properties in the state of California – Use 1.25% of purchase price as a standard industry practice. If the property has Mello Roos, the calculation increases to 1.75%.

ALL OTHER STATES

Purchase transactions, new construction or pending reassessment on existing properties for all other states:

- Taxes to be calculated per title Or if unavailable from Title, an Underwriting Manager may utilize a property tax calculator to project property taxes based on land and improvements.

Tax-Rates (be sure to adjust for correct state and county): Tax Assessors By State - Tax-Rates.org

Property Tax Calculator example but not limited to; www.smartasset.com

LEGAL ENTITY

Limited Liability Company (LLC)

Requirements

1. Required Entity Documentation

All LLCs must provide the following:

Core Formation Documents

- Articles of Organization (or equivalent formation document)
- EIN/TIN

Good Standing

- Evidence of **good standing** from the state of formation
  - Not required if the LLC was formed within the last 12 months
- **Good standing for the subject property state is *not* required**, as long as good standing is provided for the formation state

Ownership & Structure

- Documentation listing all members/managers and ownership percentages (e.g., operating agreement, organizational chart)

2. Authorization to Sign Loan Documents

Loan documents must be executed by an individual authorized to act on behalf of LLC.

Acceptable Authorization Documents

- Operating Agreement identifying the authorized signer
- Certificate of Authorization
- Member/Manager Resolution
- Any other entity document clearly granting signing authority

❗ NEW RULE – Borrower Certificate Requirement

A Borrower Certificate is required **ONLY** when **BOTH** conditions are true**:**

1. The LLC is *multi-member*
2. No entity document exists that identifies an authorized signer
   (e.g., no operating agreement, no authorization certificate, no resolution)

Borrower Certificate NOT Required When:

- The LLC is single member (never required)
- The LLC is multimember, and valid signing authority documentation is provided-member-authority documentation is provided

3. Guarantor & Borrower Qualification Requirements

Personal Guarantees

The following individuals must provide a personal guaranty:

- All **authorized signers** who are borrowers
- Any individual with **51% or greater ownership** in the LLC

Borrower Qualification

For all individuals required to personally guarantee:

- A 1003 loan application
- Credit report
- Income and asset documents

These are used to determine qualification and pricing.

4. Special Rules When Authorized Signer Is Not Listed

If the **Operating Agreement does NOT identify an authorized signer**:

- **Option A − No Other Authorization Documents Exist**
  - All members must apply as individual borrowers
    (unless a Borrower Certificate is supplied — *multi-member only*)
- **Option B − An Addendum Exists Naming an Authorized Signer**
  - Only the named authorized signer must complete a 1003 and credit qualify.

- **Option C – A Fully Executed Authorization Form Exists**
  - Only the authorized signer must complete a 1003 and credit qualify.

5. Title Requirements

- "Title will be held in what name(s)" must list only the LLC name.

6. Personal Guaranty Execution Requirements

- Must be executed at closing
- Must be dated the same date as the Promissory Note
- Borrower and Spouse reside in a community property state (AK, AZ, CA, ID, LA, NV, NM, TX, WA, WI):
  - Spousal signature required on the Loan Guaranty

7. Managing Member Signature Requirements

All **managing members** must sign required entity documents at closing unless:

- A fully executed legal agreement gives one-member sole signing authority
- This agreement must be included in the closing package

Signature Block Examples

Example 1 — Single Member LLC (Borrower Cert NOT required)

Borrower: JJ Investors, LLC
Member: James Johnson

JJ INVESTORS, LLC, a [____] limited liability company

By: James Johnson

Title: Authorized Signatory

Example 2 — Multi-Member LLC With Two Authorized Signers

Borrower: JJ Investors, LLC
Members: James Johnson & Jane Nelson

JJ INVESTORS, LLC, a [____] limited liability company

By: James Johnson

Title: Authorized Signatory

JJ INVESTORS, LLC, a [____] limited liability company

By: Jane Nelson

Title: Authorized Signatory

Inter Vivos Revocable Trusts

Trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. Trust must become effective during the lifetime of the person establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary, so long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The Trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more).
- An institutional trustee that customarily performs trust functions in and authorized to act as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property; this must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage.

Required Documentation:

- California:
    - If the trust was created under California law, a fully executed Certificate of Trust under Section 18100.5 of the California Probate Code.
- All Other States:
    - If the trust was created under the laws of a state other than California, the following is required:
    - Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all of the following:
        - The trust is revocable
        - The borrower is the settler of the trust and the beneficiary of the trust
        - The trust assets may be used as collateral for a loan.

The trustee is:

- Duly qualified under applicable law to serve as the trustee
- The borrower
- The settler
- Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber new assets

Corporation & S-Corp (Inc.)

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- Corporation /S-Corp must be domiciled in the United States
- Signed By-Laws and all amendments
- Evidence of good standing (not required for corporations formed within the last 12 months)

    - Good standing is always required for the state in which the entity was formed (e.g., certificate, screenshot from state website)
    - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., Certificate, screenshot from state website)

- EIN/TIN
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
- Proof of ownership of all owners (e.g. stock ledger, accountant letter, etc.)
- Receipt of current year franchise tax payment or clear search

Limited Liability Partnership (LLP)

- Filed Partnership Certificate (if a general partnership, filing with the secretary of state (SOS) may not be required)
- Partnership Agreement and all amendments
- Evidence of good standing (not required for entities formed within the last 12 months)

    - Good standing is always required for the state in which the entity was formed (e.g., certificate, screenshot from state website)
    - If the subject property is not located in the same state in which the entity was formed, evidence of good standing is also required from the state where the subject property is located (e.g., certificate, screenshot from state website)

- EIN/TIN

Limited partner consents (where required by partnership agreement)

Layered Entities (All Entity Types)

A layered entity is a borrowing entity that is owned, in whole or in part, by one or more other entities (LLCs, LLPs, corporations, or eligible trusts), rather than solely by individuals.

- A maximum of four (4) entities is permitted in the ownership structure, including the borrowing entity.
- All entities in the ownership structure must be domiciled in the United States. Foreign holding companies are not permitted.
- An organizational chart showing every entity in the structure and the individual(s) who ultimately own each entity is required, along with the entity documents listed above for each entity.

Trust-Owned Entities

An entity may be owned, in whole or in part, by an eligible trust. However, a trust may not be owned by an entity. Trusts must have one or more individual grantors/settlors and individual trustee(s), and must otherwise meet all applicable trust eligibility requirements.

Personal Guarantees (All Entity Types, Business Purpose Only)

The following individuals must provide a personal guaranty:

- All authorized signers who are borrowers on the transaction
- Any individual with 51% or greater direct or indirect ownership interest in the borrowing entity

Personal Guaranty Execution Requirements:

- Must be executed at closing
- Must be dated the same date as the Promissory Note
- Borrower and Spouse reside in a community property state (AK, AZ, CA, ID, LA, NV, NM, TX, WA, WI), the spouse of the required guarantor must also execute the personal guaranty.

TITLE REQUIREMENTS, VESTING & OWNERSHIP

Sky TPO requires each loan to contain a title insurance policy. If the file contains the Commitment for Title Insurance or Preliminary Title Report, it must indicate the final policy will be issued upon payment of the premium, naming Sky TPO as the proposed insured. By delivering a mortgage loan to Sky TPO, the Broker/Originator represents and warrants that the loan is covered by the required title policy, issued by a licensed insurer, and includes any required endorsements.

Terms of Coverage

The title insurance policy must ensure the title is acceptable and that the mortgage represents a first lien on a fee simple estate in the property. The title policy must also list all other liens and reflect they are subordinate. Follow Fannie Mae: Title Insurance | Fannie Mae

- Title must be in the Borrower's name at time of application for refinance transactions and on closing date f or all transactions.
- The amount of title insurance coverage must be at least equal to the original principal amount of the mortgage.
- All files must contain a 24-month title history. Transfer date, price, and buyer and Originator names should be provided for any transfers that occurred within the past 24months.
- All parties who take title to the subject property must sign the Security Instrument. All parties to the loan do not have to be on title.

Non-Occupying Co-Borrowers

- ALL NON-OCCUIPYING CO-BORROWERS TO BE A RELATIVE (BLOOD, MARRIAGE, ADOPTION OR LEGAL GUARDIANSHIP).
- NON-OCCUPYING CO-BORROWERS ARE NOT REQUIRED TO MEET A MINIMUM DTI.
- ALL INCOME CAN BE DERIVED FROM THE NON-OCCUPANT.
- QUALIFYING CREDIT SCORE FROM PRIMARY WAGE EARNER.
- ONLY ELIGIBLE FOR OWNER-OCCUPIED TRANSACTIONS.

Title Exception and Impediments

Unacceptable title impediments, particularly unpaid real estate taxes and survey exceptions are not acceptable.

If surveys are not commonly required in particular jurisdictions, the Broker/Originator must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception. If a plat map is provided in lieu of a survey based on state requirements, the plat map must be provided.

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Sky TPO considers minor impediments:

- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements.
- Above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself.

Vesting Forms

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in common
- Inter Vivos Revocable Trust
- LLC, Corp, S-Corp, or Partnership (Only Available on Investment properties)

Ineligible forms of vesting are:

- Land Trusts
- Blind Trusts
- IRAs
- Life estates

Non-Borrowing or Non-Titled Spouse/Individuals

A non-borrowing spouse/individual is the borrower’s spouse/individual whose credit and income are not considered for qualifying. A non-borrowing spouse/individual may or may not be currently vested on title to the property.

If the borrower’s spouse/individual is to be added to title through the subject transaction, they are not required to qualify for the loan or required to escalate loan documents.

A non-borrowing spouse/individual and a non-titled spouse/individual not being added to title must execute certain documents to evidence that the spouse/individual is relinquishing all rights to the property, if so required, to perfect the lien under governing law and must also execute a concurrent Quit Claim Deed or Grant Deed.

A non-borrowing spouse/individual can remain on the purchase contract and go on title at the closing of a purchase transaction. Additionally, it is permissible to add a non-borrowing spouse/individual to title on a refinance transaction. A non-borrowing spouse/individual is not required to be on the evidence of insurance or closing protection letter.

Spousal Consent when vesting in an Entity:
The Spouse is required to sign the Spousal Consent signature line within the Loan Guaranty when the property is vested in an LLC/Entity in the following community property states. The spousal signature is required due to personal assets pledged within the Loan/Personal Guaranty, that may be subject to community property jurisdiction.

- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

Loan/Personal Guaranty Language: If Guarantor (or any Guarantor, if more than one) is a married person, and the state of residence of Guarantor or Guarantor's spouse ("Guarantor Spouse") is a community property jurisdiction, then each of the following apply:

Guarantor (or each such married Guarantor, if more than one) agrees that Lender may satisfy Guarantor's obligations under this Guaranty to the extent of all Guarantor's separate property and against the marital community property of Guarantor and Guarantor Spouse.

If Guarantor Spouse is not also a Guarantor of the Loan, Guarantor certifies that none of the assets shown on his or her financial statements submitted to Lender for purposes of underwriting the Loan were either (i) Guarantor Spouse's individual property, or (ii) community property under the sole management, control, and disposition of Guarantor Spouse.

If Guarantor Spouse is not also a Guarantor of this loan and Guarantor or Guarantor Spouse's state of residence is Alaska, Arizona, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin, Guarantor has caused Guarantor Spouse to acknowledge this Guaranty as required on the signature page of this Guaranty.

Power of Attorney

A Limited Power of Attorney (POA) is

Acceptable when following requirements are met:

- POA is specific to the transaction
- Recorded with the mortgage/deed of trust
- Used only to execute the final loan documents

- Borrower who executed the POA signed the initial 1003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney

Not Permitted on:

- Loans closing in an entity (Trust, LLC, LLP, Corp)
- Cash out transactions
- TX 50a6 (Texas Owner Occupied Cash Out Refinance)

Leasehold Properties

Mortgages secured by properties on leasehold estates are acceptable in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by property improvements and the borrower's leasehold interest in the land.

The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee. In the event the mortgage is secured by a sublease of a leasehold estate, the documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease.

Lease Requirements

The following requirements must be met for leases associated with leasehold estate mortgage loans:

- The original term of the lease is not less than 15 years
- The term of the leasehold estate must run for at least 5 years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor
- The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee
- The lease must provide for the borrower to retain voting rights in any homeowners' association
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those they are paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation
- The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower, and the option to either cure the default or take over the borrower's rights under the lease.

Additional Eligibility Requirements

The following requirements must be met before a lender can deliver a leasehold estate mortgage for purchase or securitization:

- All lease rents, other payments, or assessments that have become due must be paid
- The borrower may not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor

Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest on the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold.

Both the lease and the option to purchase must be assignable.

Option to Purchase Fee Interest	
Status of Improvements	**Purchase Price of Land**
Already constructed at the time of lease execution.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	• The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. • The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. • Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed.	The purchase price of the land should be the lower of the following: • The current appraised value of the land, **or** • The amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. Example: Assume that the total original appraised value for a property was $160,000 and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000) Note: If the lease is tied to an external index, the initial land value may not exceed 405 of the combined appraised value of the land and improvements.

Solar Panels

Sky TPO will accept properties containing solar panels under the following circumstances.

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate.

Common ownership or financing structures include:

- borrower-owned panels
- leasing agreements
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); **or**
- Power Purchase Agreements.

Properties with solar panels are eligible for financing. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or secured by the existing first mortgage), Sky TPO's standard requirements apply (for example, appraisal, insurance, and title).

NOTE: PROPERTIES WITH SOLAR PANELS AND OTHER ENERGY EFFICIENT ITEMS FINANCED WITH A PACE LOAN ARE NOT ELIGIBLE IF THE PACE LOAN IS NOT PAID IN FULL PRIOR TO OR AT CLOSING.

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records which appear on the title report, then the following must be done:

- Obtain and review the credit report, title report, Appraisal, and/or UCC fixture filing, Promissory Note, and related security agreement that reflects the terms of the secured loan
- Include the debt obligation in the DTI calculation.
- Provided the panels cannot be repossessed for default on the financing terms, appraiser can consider the solar panels in the appraised value of the property.
- Include the solar panels in "other debt" secured by the real estate in the CLTV calculation because a UCC fixture filing is of record in the land records.
- If a UCC fixture filing is in the land records, it must be subordinated to Sky TPO's mortgage loan. The UCC lien cannot be terminated and refiled after closing.

If the solar panels are financed and collateralized – the solar panels are reported to be collateral for separate non-mortgage debt used to purchase the panels, but do not appear on the title report, then the following must be done:

- Obtain and review the credit report, title report, Appraisal, and/or UCC fixture filing, Promissory Note, and related security agreement that reflects the terms of the secured loan
- Include the debt obligation in the DTI calculation
- Appraiser cannot provide contributory value of the solar panels towards the appraised value as they are collateral for another debt
- Solar panels are not included in the LTV/CLTV calculation because the security agreement/UCC financing statement treat the panels as personal property not affixed to the home.

If the solar panels are leased or covered by a Power Purchase Agreement (PPA):

- Obtain and review copies of the lease or power Purchase Agreement
    - The monthly lease payment must be included in the DTI calculation (if applicable) unless the lease is structured to:
        - Provide delivery of a specific amount of energy at a fixed payment during a given period, **and**
        - Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
    - Payments under PPA where the payment is calculated solely based on the energy produced may be excluded from the DTI
- The value of the solar panels cannot be included in the appraised value of the property
- The value of the solar panels must not be included in the LTV calculation; even if a precautionary UCC filing is recorded because the documented lease or power Purchase Agreement status takes priority
    - A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it
- When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power Purchase Agreement, and not the home or underlying land, such a precautionary
- UCC filing is acceptable (and a minor impediment to title), so long as the loan is underwritten in accordance with this topic
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV calculation because the documented lease or power Purchase Agreement status takes priority.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or power Purchase Agreement must indicate that:
    - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);
    - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, Sky TPO may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner’s property insurance policy; and
- In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the third-party owner to remove the equipment;
        - Become, without payment of any transfer or similar fee, the beneficiary of the borrower’s lease/agreement with the third party; or
        - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

ITIN Loan Program

ITIN ELIGIBILITY

General

This program requires at least 1 borrower to have an Individual Taxpayer Identification Number (ITIN) and meet the ITIN documentation requirements.

ITIN Documentation Requirements

- Government photo ID from U.S. or eligible country of origin. Examples include government license, passport, etc. A Visa is not required in addition to the above for an ITIN borrower.
- ITIN card or letter from the IRS
- All documentation in the file must support the borrower's ITIN and cannot reference an SSN belonging to another individual.
- ITIN is required to be assigned to the borrower prior to application

Evidence of an unexpired ITIN:

- Full Doc/1099 loans: Current executed transcripts will validate the borrower's current ITIN status.
- Alt-Doc loans: Provide one of the following:
  - IRS letter dated less than 3 years ago
  - Fully executed W7, including agent's signature
  - Letter from tax preparer confirming they have filed the borrower's most recent tax return with the IRS

THE FULL AND ALT DOCUMENTATIONS LISTED ABOVE SATISFIES THE RESIDENCY REQUIREMENTS; A VISA IS NOT REQUIRED IN ADDITION TO THE ABOVE FOR AN ITIN BORROWER.

ITIN Specific Requirements

Non-ITIN co-borrowers are allowed provided they meet the residency requirements of one of the following:

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien

Non-occupant co-borrowers are not allowed.

The primary borrower should be an ITIN borrower.

ITIN Loan Program

Credit Requirements

U.S. Credit Required

Qualification

ITIN borrowers may qualify using **traditional U.S. credit**, provided they meet the **standard tradeline requirements** outlined in the matrix.

Each credit report must utilize three credit reporting bureaus provided by Equifax, Experian, and Transunion. None of the three credit bureaus are allowed to be frozen. Refer to the program matrix in conjunction with the Credit Section of this guide for qualification of credit for ITIN Qualification.

Income

Refer to the program matrix in conjunction with the Income section of this guide for qualification of Full/Alt Documentation income requirements.

Assets

Refer to the program matrix in conjunction with the assets section for reserves, down payment, and closing costs.

FOREIGN NATIONAL ELIGIBILITY

General

Description

The Foreign National Program applies to non-resident aliens who are not authorized to live or work in the United States or who hold a work visa indicating a more temporary residency than what is required to meet non-permanent resident alien standards.

To qualify, the borrower must live and work in another country and be a legal resident of that same country.

Documentation Requirements

To demonstrate lawful entry into the U.S., the borrower must provide:

1. A valid, unexpired passport, and one of the following:

- A copy of the borrower's unexpired visa, or
- Form I-797 (Notice of Action) showing valid extension dates and an I-94 Arrival/Departure Record, or
- If the borrower is from a country participating in the Visa Waiver Program (VWP), a visa is not required.
    - VWP country list: https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html
- Citizens of Canada are not required to obtain a nonimmigrant visa to enter the U.S.

Ineligible:

- Borrowers who cannot provide evidence of lawful residency status in the U.S. are not eligible for financing.

Additional Requirements:

- A list of non-immigrant visa categories can be found at the U.S. Department of State: https://travel.state.gov/content/travel/en/us-visas/visa-information-resources/all-visa-categories.html
- If a non-U.S. citizen is applying with a U.S. citizen, Foreign National documentation requirements still apply to the non-U.S. citizen borrower.

Foreign National Loan Program

Borrower Eligibility

Eligible

Foreign National

Ineligible

- Revocable/Irrevocable Trusts | Land Trust | Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Any borrower suspended, debarred, or otherwise excluded per the LDP/GSA and/or OFAC/SAM findings

All parties (borrowers and property sellers) involved in the transaction must be screened through exclusionary lists and must be cleared up through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via the U.S. Department of Treasury: http://sdnsearch.ofac.treas.gov/

Borrowers from OFAC sanctioned countries are ineligible: http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at https://www.state.gov/office-of-the-chief-of-protocol/diplomatic-list

Credit Requirements

U.S. Credit

Foreign National borrowers may qualify using traditional U.S. credit, provided they meet the standard tradeline requirements outlined in the matrix.

Foreign Credit

The Qualifying Foreign Credit designation applies to non-permanent resident alien or ITIN borrowers who do not meet Standard Tradeline requirements and falls under the Foreign National guidelines.

Borrowers qualifying under foreign credit may or may not have a U.S. credit report, and when they do, it may show:

- No FICO score
- A single score
- An invalid score (due to insufficient tradelines for three scores)

Refer to the Tradeline Requirements Matrix for specific eligibility standards.

Foreign National Loan Program

Qualifying U.S. Credit for Foreign National Borrowers

Foreign National borrowers with a valid SSN must have a U.S. credit report. Except where noted below, follow the standard Credit Section for tradeline requirements.

A housing history for the borrower's foreign primary residence is not required.
For refinances, including cash-out, the most recent 12-month housing history for the subject property is required and must meet the Credit Section standards.

U.S. Credit Tradeline Requirements (Restrictions)

Borrowers must meet one of the following:

- One tradeline reporting satisfactorily for 24 months, with activity in the most recent 12 months; or
- Two tradelines reporting satisfactorily for 12 months, each with activity in the most recent 90 days.

Qualifying Foreign Credit for Foreign National Borrowers

Foreign National borrowers without qualifying U.S. credit (including those without an SSN or with/without an ITIN) must provide:

- Two tradelines reporting for 12+ months, or
- One tradeline reporting for 24+ months

No derogatory credit is permitted within the most recent 24 months.

Acceptable Sources to Meet Tradeline Requirements:

Any combination of the following:

1. U.S. Tradelines

- Tradelines evidenced on a U.S. credit report meeting the timelines above.

2. Alternative Foreign Tradelines

- One credit reference letter from a verified foreign financial institution stating:
  - Type of account
  - Length of relationship
  - Payment amount
  - Outstanding balance
  - Status confirming no late payments in the past 12 months

OR

- One financial reference letter from a verified foreign financial institution stating:
  - Type of account

- Length of relationship
- How the account is held
- Current balance
- Status confirming no negative balances or NSFs in the last 12 months

Additional Requirements for All Reference Letters:

- A single institution may verify multiple accounts.
- Each account must include individual details.
- Letter must identify the borrower by name.
- Letter must include the name, title, and contact information of the signer.
- All currency must be converted to U.S. dollars.
- All documents must be translated into English.
- Credit Reference Letter does not require a documented 12-month payment history.

Credit Card Statements (Alternative Documentation):

- Minimum 12 most recent statements, covering a full 12-month period, showing timely payments.

Acceptable Foreign Credit Components:

- A 24-month housing payment history may be used as a tradeline.
- U.S. credit accounts may be supplemented with credit reference letters from verified foreign financial institutions or an international credit report to establish an acceptable credit profile.

Credit reference letters must:

- Identify the type of account, length of relationship, account ownership, and current status
- Include contact information for the person issuing the letter
- Include translations that are signed and dated by a certified translator
- Reference the individual borrower, not a business entity

NOTE: When qualifying with foreign credit, the loan must be priced as a Foreign National loan.

Foreign National – Specific Requirements

Foreign Residency

- The borrower must document their primary residence in the same country that issued their passport.
- Foreign National borrowers may not occupy the subject property as their primary residence.
- A full loan application is required and must include the borrower's complete foreign address, including:
  - Full legal name
  - Phone number
  - Flat/floor/unit/house number
  - Street name

- City
- Province/state
- Postal code
    - Borrower must provide third-party documentation that matches the primary residence listed on the application (e.g., lease agreement, utility bill, financial statement).

Automatic Payment Authorization (ACH)

- Automatic Payment Authorization (ACH) is required for all Foreign National borrowers.
- Payment funds must originate from a U.S. bank account.
- The executed ACH enrollment form must be included in the closed loan package and must contain:
    - Bank routing number
    - Account number
    - Account type
    - A voided check

Income

Foreign National Income Qualification Requirements

Full Documentation:

The following items must be obtained:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings; or 2 months' pay stubs with YTD earnings.
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent) converted to US dollars.
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification). Must be dated within 10 days of the note.
- All documents must be translated into English.

Self-employed: The following items must be obtained:

- Letter from a CPA or equivalent per country providing income for the last 2 years and YTD earnings with confirmation the borrower has been self-employed for at least 2 years.
- Self-employed businesses and CPA are to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification). Must be dated within 30 days of the note.
- All documents must be translated into English.

Foreign National Loan Program

Asset Utilization:

Foreign National borrowers may use asset utilization to determine qualifying income if those qualified assets are sourced and seasoned for a minimum of 3 months. The qualified assets and reserves may be deposited in financial institution(s) outside of the United States.

The following assets are considered qualified assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of stocks & bonds
- 70% of retirement assets

Calculation: Monthly Income = Net Qualified Assets/60 Months

Debt Service Coverage Ratio (DSCR)

DCSR for qualification purposes. Refer to the program matrix for qualification of DSCR 1-4 family requirements.

Assets

Refer to the program matrix in conjunction with the assets section for reserves, down payment, and closing costs. and closing costs.

Seller Contributions

Follow Matrix.

EXCEPTION POLICY

Exceptions to published guidelines are considered on a case-by-case basis. Loans with an exception request should demonstrate strong compensating factors. Sky TPO decision to grant or deny any exception request relates only to whether Sky TPO will acquire the loan. The result does not bind a broker/originator in deciding to extend credit.

EXHIBITS

Exhibit A – Non-Permanent Resident Aliens

EAD and Visa classifications are allowed as non-permanent resident aliens.

VISA	Valid EAD Card	Description
B1/A3/G5	C17	Non-immigrant domestic servant (Visa and Valid EAD Card must be combined)
BC-1	N	Broadcaster in the U.S. employed by the International Broadcasting Bureau of the Broadcasting Board of Governors
BC-2,3	Y	Spouse, child of BC-1
C-5; C-51	N	Employment creation
C-52-53	C09	Spouse or child of C-5 or C-51
DV- 1,2,3	N	Diversity immigrant, spouse, child
E-1, 2, or spouse of E-1, 2 (the spouse does not get a different number for this category)	A17	Treaty/Trade investor or spouse
E-11/EB-1	N	Person with extraordinary ability in the sciences, arts, education, business, or athletics
E-12	N	Outstanding professor or researcher
E-13	N	Multinational executive or manager
E-14 /15	C09	Spouse or child of Ell, 12, or 13
E-21	N	Professional holding advanced degree or alien of exceptional ability
E22,23	C09	Spouse, child of E-21
E-3	N	Specialty occupation- Australia
E-31	N	Skilled worker
E-32	N	Professional holding baccalaureate degree
E-34,35	C09	Spouse or child of E31 or 32
e	N	Other worker
EW-4,4	C09	Spouse or child of EW-3
G-1, 2, 3, 4, 5	N / C04 spouses and children: C04	Employees of international organizations and NATO; spouses and children
H1-B	N	Foreign Nationals working in the U.S. in a specialty occupation
H-4	N/A	Spouse or child of H type
I- 5, 51	N	Investor in employment
I-52, 53	C09	Spouse or child of 1-51

IH-3, 4	C09	Child adopted or to be adopted by U.S. citizen
L, L-1a and L-1b	N	Intracompany transferees
N/A	A02	Lawful temporary resident pursuant to sections 245a or 210 of the INA (temp. agricultural worker)
N/A	A03	Refugee
N/A	A05 (or Valid SSN Card)	Asylum granted
N/A	A12	Temporary protected status
N/A	A13	IMMACT Family Unity beneficiary
N/A	A14	LIFE Act Family Unity beneficiary
N/A	All	Deferred Enforced departure
N/A	A10	Granted withholding of Deportation or Removal
N/A	C12	Spouse of an E2 commonwealth of the Northern Mariana Islands investor, eligible for employment. In the CNMI only
N/A	C14	Alien granted deferred action
N/A	C16	Registry applicant
N/A	C19	Temporary Protected status
N/A	C31	Principal beneficiary or qualified child of approved VAWA self-petition
N/A	C33	DACA
N/A	C10	Nicaraguan Adjustment & Central American Relief Act
N/A	C08	Asylum applicant, status pending
N/A	C11	An alien paroled into the United States in the public interest or temporarily for emergency reasons
N-8 OR 9	A07	Parent or child of international organization employee granted permanent residence
NAT0-1-6	C07	NATO members, staffs, and families for temporary stay
O	N	Extraordinary ability in science, education, the arts, business or athletics
R-1	N	Religious workers
R-5, 51	N	Investor in pilot program
R-52, 53	C09	Spouse or child of R-51
SD-1	N	Religious workers
SD-2, 3	C09	Spouse or child of SD-1
SE-1	N	Employees or former employees of the U.S. gov't abroad
SE-2, 3	C09	Spouse or child of SE-1
SF-1	N	Former employees of the Panama Canal Company or Canal Zone Gov't
SF-2	C09	Spouse or child of SF-1
SG-1	N	Former employees of the U.S. gov't in the Panama Canal Zone

SG-2	Y	Spouse or child of SG-1
SH-1	N/A	Certain former employees of the Panama Canal Company or Canal Zone gov't on 4/1/79
SH-2	C09	Spouse or child of SH-1
SI	N	Interpreters
SJ-1	N	Foreign medical graduate
SJ-2	C09	Spouse or child of SJ-1
SK-1	N	Retired international organization employee
SK-2	C09	Spouse of SK-1
SK-3	C09	Unmarried child of an international organization employee
SK-4	C09	Surviving spouse of deceased international organization employee
SN-1	N	Retired NATO6 civilian
SN-2, 3	C09	Spouse of child of NATO6 civilian employee
SN-4	C09	Surviving spouse of deceased NATO6 civilian employee
SQ	N	Iraqi/Afghans who work on behalf of the U.S. government
SR 2, 3	C09	Spouse or child of SRI
SR-1	N	Religious workers
T-1-4	A16 OR C25	Victim or spouse or child or parents of victim of human trafficking
T-5, 51	N	Employment creation
T-52, 53	C09	Spouse or child of T-51
TC NAFTA, TN, TD	e	Canadian or Mexican citizens working in the U.S.
U-1-4	A19 OR A20	Victim or family member of victim of criminal activity

Exhibit B – Foreign Nationals

Visa and valid EAD card classifications are allowed for Foreign Nationals.

Visa	Valid EAD	Description
B-1,2	N/A	Business visitor
B-11, B-16	C09	Unmarried son or daughter of U.S. citizen
B-12, B-17	C09	Child of B-11 or B-16
B31-33	C09	Married son or daughter of U.S. citizen (B-31), spouse of B31 or child of B-31
C-21-25	C09	Spouse or child of permanent resident or FX 1
C-31-33	C09	Spouse or child of U.S. citizen
CR- 1-2, 5	C09	Spouse or child of U.S. citizen
CX-1-3	C09	Spouse, child, or stepchild of lawful permanent resident
F-,3, 4; 11, 12, 21-25, 31-33, 41-43, F-2 A&B	C09	Family members of permanent residents or U.S. citizens
F1	C03	Student
FX- 1-3	A09	Spouse or child of permanent resident or FX 1
H-2 A & B	N/A	Temporary workers
H-3	N/A	Temporary training
IR-1-5	C09	Spouse, child, or child to be adopted of U.S. citizen
J-1, J-2	N	Cultural exchange visitor
K-1 or 3	A06	Fiancée of U.S. citizen
L-2, 3	A18	Spouse or child of L-1
M-1	C06	Student seeking practical training after completing studies
P-1, P-2		Non-immigrants coming to the U.S. to perform in athletics or entertainment
Q	N/A	Cultural exchange program
V-1, 2, 3	A15	Married to or a child of a legal permanent resident and you have been waiting at least 3 yrs. for the approval of a petition for lawful permanent resident status

Exhibit C - Condominium Quick Reference Guide

This Reference Guide is designed to help Sky TPO partners determine the appropriate level of project review for loan transactions in condo projects

Program	Limited Review Eligible	Full Review Required	Purchase LTV Max	Rate-Term LTV Max	Cash Out LTV Max	Condotel LTV Max
Breezy DSCR 1-4 Units	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Breezy Full Doc	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Sunny Full Doc Primary & 2nd Home	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Breezy Alt Doc	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Sunny Alt Doc Primary & 2nd Home	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
ITIN Breezy DSCR >.80	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
ITIN Sunny Full/Alt	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix

Foreign National Passport DSCR	Yes	State of Florida or if required based on Limited Review State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Foreign National Passport Full Doc	Yes	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	See Matrix
Starry	No	State of Florida >70% LTV or if required based on Limited Review	See Matrix	See Matrix	See Matrix	NA