

Chase Non-Agency Program Delegated

April 2018

Chase Non-Agency Program

Provides borrower product offerings in high-cost markets that are not currently served by conforming loan amounts

As a reminder:

- Ensure loans comply with Dodd-Frank regulations
- Loans must follow all Chase Non-Agency Underwriting guidelines (Agency guidelines do not apply)

Information presented is for informational purposes only. It is believed to be reliable, but Chase does not warrant its completeness, timeliness or accuracy. Refer to Chase Online Guide for complete details.

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Delegated Non-Agency Program Information

Program Information

- **Eligibility Criteria**

To be eligible to participate in this program, Correspondents must:

- ✓ Be in “Good Standing” as defined in Correspondent Seller Eligibility topic
- ✓ Receive written approval from Chase
- ✓ Have been previously approved for Conventional Delegated authority and Non-Delegated, Non-Agency authority
- ✓ Execute the Delegated Non-Agency Underwriting Addendum to the Correspondent Origination and Sales Agreement and return it to Chase
- ✓ Have and maintain a minimum HUD adjusted net worth of $10 million

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Program Information

- **Eligibility Criteria Cont.**

The following requirements apply to Delegated Non-Agency transactions, and are already documented in the Non-Agency Product Guides and Correspondent Seller Eligibility Standards

Topic	Requirement
Minimum Credit Score	Use credit score outlined in the product guide for transaction and product type
Condo/PUD Warranty	Correspondents with Delegated Non-Agency authority can either: ▪ Rep and warrant that the condo/PUD project meets Chase and project approval guidelines as evidenced by including a completed Delegated Correspondent Certification of Eligibility for Condominiums and Attached PUDs in the closed loan file, or ▪ Submit to Chase Project Approval Group (PAG) for review **Notes:** ▪ Chase limited project reviews are eligible ▪ Projects that are currently declined by Chase must be submitted to Chase for status reconsideration. ▪ Fannie Mae PERS/1028 final approval are eligible on Non-Agency transactions

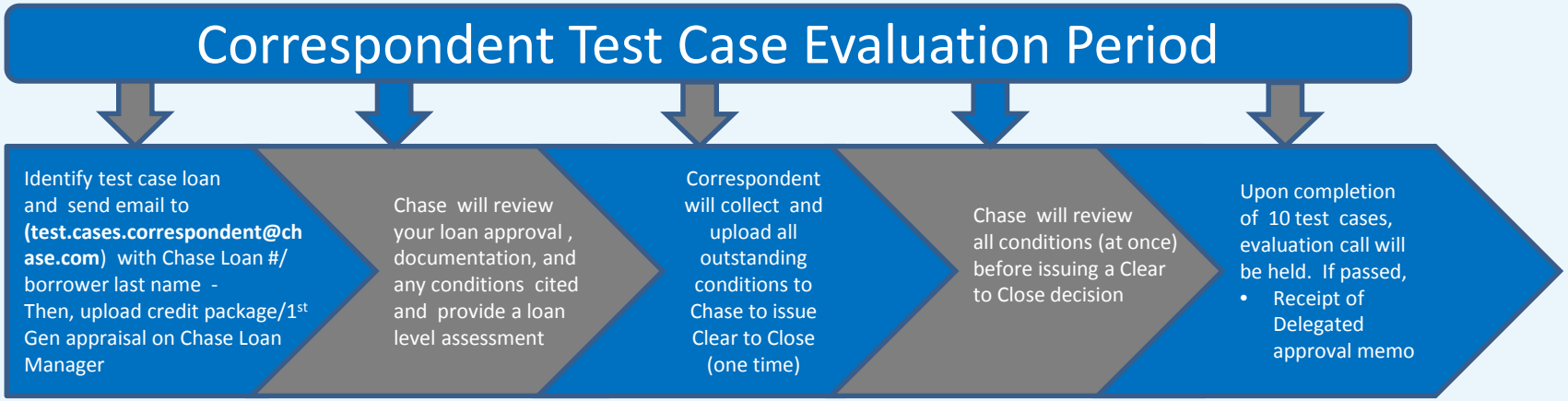
Note: Additional condo and co-op project approval resources are provided in the Resources and Tools portion of this training

Program Information

Topic	Requirement
Co-ops	Transactions secured by a co-op must be underwritten by Chase. **Notes:** ▪ Co-op projects must continue to be submitted to Chase for review ▪ Correspondents with existing Delegated Co-op and Delegated Non-Agency authority will underwrite Non-Agency co-op transactions with loan amounts ≤ $2,000,000
Maximum Delegated Loan Amount	$2,000,000 **Note:** Loan amounts greater than $2,000,000 must be underwritten by Chase
Trust Certification	Correspondents with Delegated Non-Agency Authority have the option to rep and warrant a revocable trust following the same parameters as delegated Agency transactions. An Attorney Opinion Letter is not required **Note:** Loan amounts greater than $2,000,000 continue to require an Attorney Opinion Letter

Program Information - TEST CASE Process

- Non delegated customers will identify and submit ten non delegated loans for Chase to evaluate
  - ✓ Loans selected should be representative of non agency production profile
  - ✓ Must submit a complete credit file (see definition of complete file on next page)
  - ✓ Loans must contain a Transmittal summary (1008) signed and dated by Correspondent's underwriter and your underwriters loan approval listing conditions for any documentation not included in the loan file. Chase Underwriting will issue an approval memorandum. Any conditions listed on the Chase approval memorandum will be considered errors unless your underwriter's loan approval has conditions reflecting conditions for the same items. "Submit any/all outstanding conditions to Chase in one delivery".
  - ✓ Chase will provide feedback on every test case review. In addition, Chase will also provide feedback on the aggregate of the first five test cases submitted during a conference call with your designated test case contact and Chase will also provide feedback on the aggregated results of all test cases submitted during another conference call with your designated test case contact
  - ✓ When you submit a test case file you must upload any tools (including the Chase tools) your underwriter used to calculate income and assets and to determine the credit and collateral were acceptable to Chase".



Note: Chase is asking that you return your signed delegated non agency addendum to your AE well in advance of your test case completion to reduce additional delays after receiving your test case approval.

Program Information – Test Case Process (cont.)

❖ Loan Quality Expectations of your test cases

- ✓ When you submit a test case file, your credit decision document should reflect your calculations and verification of Credit, Collateral, Income, and Assets. There should not be any outstanding conditions asking for proof of income, assets, collateral or credit.

- ✓ A complete test case file must consist of the following:

Chase UW submission checklist	Credit Bureau Report and critical supporting documentation	Verification of Income (paystubs, tax returns, W-2's)	Loan Condition/Stipulation sheet indicating any conditions that had to be satisfied
Residential Loan Application (1003)	1st Generation appraisal (verification of collateral)	Transmittal summary evidencing UW decision (1008)	Any other information you deemed critical to rendering your credit decision
Credit Bureau Report	Verification of Assets (Bank statements, Mutual funds, etc)	Approval memorandum to borrower	

Notes:
1) Miscellaneous Non Critical conditions are acceptable but must be received and cleared by Chase to issue a Clear to Close
2) Outstanding "At Closing" conditions are acceptable to issue Clear to Close

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Test Case Process- Top Missed Conditions

1. Required bank statements were not provided
2. Satisfactory explanation for all inquiries within the past 120 days on the credit report evidencing no additional debt was not provided
3. Documentation verifying the source of large deposits was not provided
4. Satisfactory verification from all employers covering the most recent two year history required prior to closing
   a. For any gaps in employment of 30 days or more, a satisfactory explanation from the borrower is also required
5. 4506-T Re-verification- IRS transcripts to be provided by the Correspondent for the most recent two years used in qualifying
6. P&L statement and/or balance sheet required and not provided
7. Closing Disclosure evidencing the mortgage paid is paid off was not provided
8. Credit supplement was needed and not provided
9. Evidence of taxes, insurance and the monthly HOA dues (when applicable) was not provided

Program Information

- **Test Case and Evaluation Results**
  - Upon receipt of your "Clear to Close approval" on your tenth test case , Chase Underwriting will compile your test case evaluation assessment to review and discuss your delegated approval status
    - ✓ Successful
    - ✓ Additional test cases required
    - ✓ Ineligible
  - If you successfully completed your test case evaluation period, you will be advised when your delegated authority will become effective based on the following

If your Test case approval memo is issued between	Your delegated authority will become effective on	Once delegated authority is effective
The 1 – 15 of the month	The thirtieth of that month	Only delegated loans will be submitted on/after the thirtieth
The 16 – 30 of the month	The fifteenth of following month	Only delegated loans will be submitted on/after the fifteenth

Note: Any Non Agency loans requiring Chase Underwriting, must have credit packages submitted prior to your delegated effective date noted above. Credit packages submitted on/after your delegated effective date will not be underwritten by Chase.

Program Information

- **Access to Chase Underwriting on limited basis**

  - This enhanced program will allow you to submit some Non-Agency transactions within your Delegated Non-Agency authority to Chase for underwriting for a fee of $750

  - Loans outside your Delegated Non-Agency authority must be underwritten by Chase and will follow the standard Non-Delegated Underwriting fee schedule and process

  - The updated Fee Schedule is included in the Online Guide and reflects the change to the UW fee

Program Information

- **Opt Out of Delegated (Loan Level)**

  - Customers get the ability to have Chase underwrite 10% or 1 loan per quarter (whichever is greater) for loans within their delegated authority (loans <$2m)

    - ✓ No justification or prior approval is required in advance from Chase Underwriting

  - Opt Out email requests must be submitted to chase.to.underwrite@chase.com prior to uploading the loan for Chase to underwrite

  - The opt out e-mail should include the following to ensure the loan is directed immediately to Chase Underwriting upon receipt:

    - ✓ The email subject line should read Opt Out Request

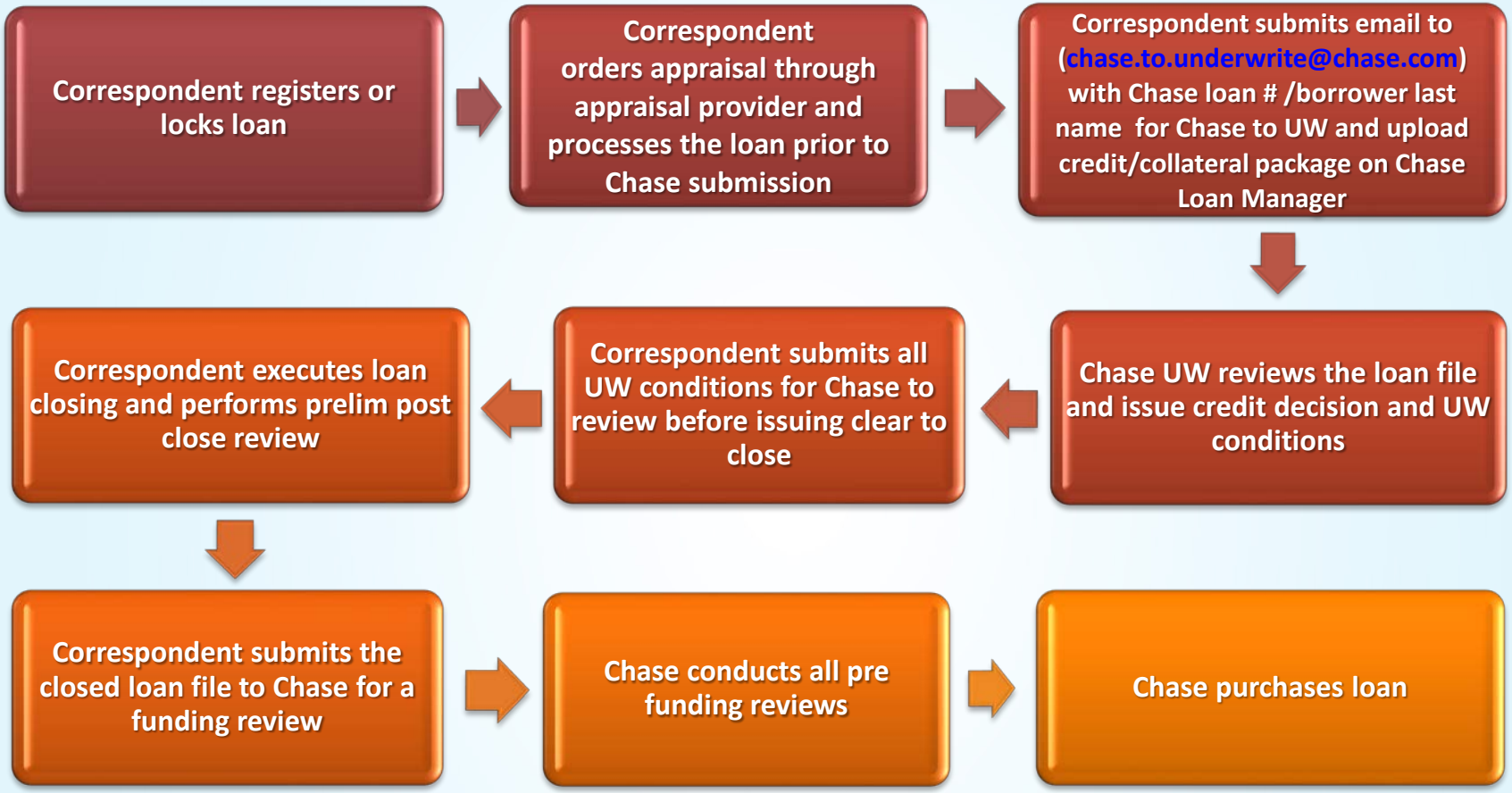
    - ✓ The body of the email should include the following to avoid privacy concerns:

      - Chase loan number

      - Borrower last name

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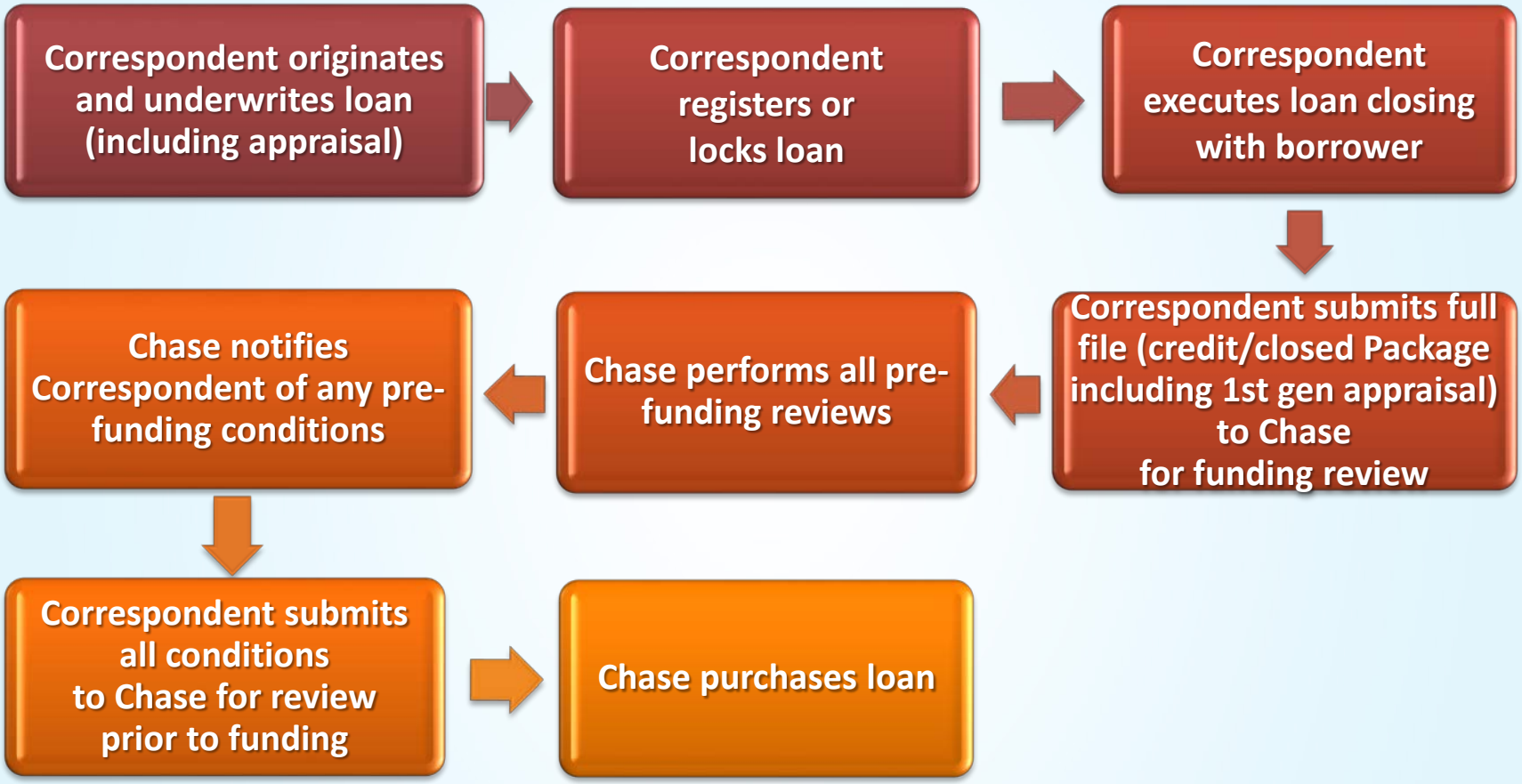
Opt Out Loan Process Overview



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Delegated Non-Agency Loan Process Overview

Delegated Loan Process Overview



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Delegated Non-Agency Product Highlights

Available Products

Market Type	Product
603	20-, 25-, and 30-Year Non-Agency Fixed Rate
623	10- and 15-Year Non-Agency Fixed Rate
755	5/1 Non-Agency Amortizing ARM
517	7/1 Non-Agency Amortizing ARM
510	10/1 Non-Agency Amortizing ARM
752	5/1 Non-Agency Interest-Only ARM
487	7/1 Non-Agency Interest-Only ARM
549	10/1 Non-Agency Interest-Only ARM

Note: Program is available for Best Efforts transactions only; not available for Mandatory AOT/Direct Trade transactions

Minimum Loan Amounts

To eliminate overlap between our Agency High Balance products offerings and the Non Agency products, minimum loan amounts apply as outlined below:

For products and features	Minimum Loan Amount is:
Available under the Chase Agency High Balance programs	HERA Agency High Balance Loan limit as specified for county, state, and number of units, plus $1
Not available under the Chase Agency High Balance programs	Conforming loan limit as specified for state and number loan units, plus $1

Product Eligibility Parameters, Cont.

<table>
<tr><th>Topic</th><th>Requirements</th></tr>
<tr><td>Qualified Mortgage (QM) Designation</td><td>
Amortizing Loans:

Must be QM-Safe Harbor or QM-Rebuttable Presumption
Non-QM transactions are not eligible

Interest-Only Loans:
<table>
<tr><th>If…</th><th>Then…</th></tr>
<tr><td>only reason for Non-QM designation is due to loan containing an interest-only feature,</td><td>loan is eligible for purchase provided loan meets all other Chase eligibility and underwriting criteria</td></tr>
<tr><td>Non-QM status is due to reason other than loan containing an interest-only feature (i.e. fails points and fees, DTI exceeding 43%, etc.),</td><td>loan is not eligible</td></tr>
</table>
</td></tr>
<tr><td>Maximum Loan Amount</td><td>
Delegated:

Primary and Second Homes Up to and including $2,000,000
Investment Transactions up to and including $1,000,000, Some restrictions may apply-refer to the specific product guide for complete details.

Note:

Loan amounts in excess of $2,000,000 must be submitted for Non-Delegated Underwriting by Chase
Refer to Chase Online Guide for geographic locations and additional requirements

</td></tr>
</table>

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Product Eligibility Parameters, Cont.

Topic	Requirements
Maximum LTV / CLTV	85% **Note:** Subject to additional reserve requirement
Minimum FICO	680
Maximum DTI	35% - 43% **Note:** Refer to the maximum LTV/CLTV and Minimum FICO Topic and Qualifying Ratios Topic of the applicable Non-Agency Product for additional parameters
Occupancy	Primary Residence, Secondary, and Investment

Product Eligibility Parameters, Cont.

Non-Agency Amortizing Fixed and Non-Agency Amortizing ARMs:

Reserves	
LTV/CLTV/HCLTV	**Reserves Needed**
≤ 80%	6*
> 80 to ≤ 85%	18 months

*12 months reserves required when any retirement account is used as a qualifying asset
Continue to apply existing additional reserve requirements for Second Home and Investment Property transactions, Conversion of Primary, and to offset Rental Management history.

Interest Only Arm Requirements:

Reserves
Minimum of 24 months fully amortizing PITIA based on 20-year amortizing payment required
Note: Additional Reserves may be required depending upon the loan scenario

Product Eligibility Parameters, Cont.

Topic	Requirements
Property Types	1-4 Unit, PUD, Condo, Co-op **Notes**: • Co-ops are not eligible for Delegated Underwriting and must be submitted for Non-Delegated Underwriting • 3-4 Unit properties not eligible for Interest-Only products • Additional restrictions apply for condo, co-ops and PUD's.
4506-T	A fully processed 4506-T, with two years transcripts, is required for all borrowers on loan **Note**: Refer to the complete Tax Transcripts policy: Tax Transcripts>Tax Transcripts Requirements for Income Documentation
Trust Certification	**Delegated:** Option to rep and warrant a revocable trust following same parameters for Agency delegated transactions **Note**: Loan amounts greater than $2,000,000 continue to require an **Attorney Opinion Letter**.
Features	Texas 50(a)(6) permitted

Product Eligibility Parameters

Topic	Requirements
Transaction Types	**Purchase** • Proceeds from the transaction must be used to: ❖ Finance acquisition of subject property ❖ Finance acquisition and rehabilitation of subject property, or ❖ Pay off outstanding balance on an installment land contract or contract for deed (executed within last 12 months)

Product Eligibility Parameters

Topic	Requirements
Transaction Types	**Delayed Financing (also known as Technical Refinance)** • When the applicant purchased the property with cash or unsecured financing within 90 days from date of the application, and the borrower now prefers to encumber the property with secured financing: ❖ Transaction is underwritten and priced as a purchase transaction ❖ Cash-back to the borrower in excess of the original purchase price or appraised fair market value (whichever is lower) is not allowed ❖ Right of Rescission is required (see Compliance Related Topics > Right of Rescission for additional information) ❖ Texas 50(a)(6) transaction is underwritten as a refinance, priced as a purchase and must meet all other Texas 50(a)(6) requirement. **Note:** refer to the Correspondent Lending Library Online Guide, Products, Texas 50 (a) (6) Refinance Transactions.

Product Eligibility Parameters

- **Delayed Financing cont.**

Subject	Requirement
Transaction Type	Transaction must be an arm's-length transaction (refer to Arm's Length and Non-Arm's Length Transactions for more information)
Source Funds	Source of funds (from eligible sources as reflected in the Online Guide) for the purchase transaction must be documented with, but not limited to: • Bank statements • Personal loan documents • HELOC documentation on another property (such as copy of statement evidencing a draw for the initial purchase of the subject property) Note: Gift funds used to purchase the property are not an eligible source of funds that can be reimbursed through delayed financing
Documentation	Closing Disclosure (CD) must confirm that no mortgage financing that resulted in a lien against the subject property was used to obtain the subject property • Preliminary title search or report must also confirm no liens on the subject property • Repayment of unsecured or personal loans used as the source of funds for the purchase transaction must be documented on the Closing Disclosure (CD)

Product Eligibility Parameters, Cont.

Topic	Requirements
Transaction Types	**Cash-Out Refinance** • Proceeds issued to borrower or other payee at closing ❖ Existing first mortgage was originated within six months of application date and was a cash out transaction • Payoff of: ❖ a Leasehold on property ❖ unseasoned or pay-down of unseasoned subordinate financing ❖ seasoned Home Equity Lines of Credit (HELOCs) that have had draws within last 12 months ❖ Payoff of seasoned or unseasoned Home Equity Lines of Credit (HELOCs) that have had draws within last 12 months ❖ Paying down a seasoned/unseasoned HELOC in lieu of paying off and closing a HELOC is considered a cash-out refinance transaction and subject to cash back limitations ($250,000); regardless if the HELOC was used as purchase money. ❖ When paying off an unseasoned HELOC and accessing additional cash back. The balance of the HELOC being paid off is subject to the $250,000 cash-back limitations. • The applicant must have owned the property for a minimum of six months prior to the date of application and there is no restriction related to previous financing. **Notes:** • Cash back limitations are restricted to $250,000 and includes payoff or paydown of any unseasoned subordinate lien • Cash-out Refinance not available for Interest-Only, Second Homes, and Investment • Paying down a seasoned/unseasoned HELOC in lieu of paying off and closing a HELOC is considered a cash-out refinance transaction and subject to cash back limitations ($250,000); regardless if the HELOC was used as purchase money.

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide - Non-Agency > Definition – Purchase, Refinance, Land Contract, Construction to Perm.

Product Eligibility Parameters

Topic	Requirements
Transaction Types	**No Cash Out Refinance** • Payoff of: ❖ An existing first mortgage which includes a first lien home equity loan or Home Equity Line of Credit (HELOC).If the first mortgage was originated within the past six months of the application date and was a cash-out transaction (or if there have been draws on the first lien non-Chase HELOC in the past six months), the loan must be considered cash out and is not eligible for a no cash-out refinance. Refer to Short Term Loan Seasoning for requirements. ❖ Any seasoned or unseasoned junior lien(s) related to the purchase of the property, including an equity line of credit without any draws within the last 12 months ❖ Any seasoned junior lien(s) that is non-purchase related, including an equity line of credit without any draw within the last 12 months • Up to 5% of loan amount may be used for closing costs, financing costs, and prepaid items. The lesser of 1% or $5,000 incidental cash may be received back by the borrower but is included as part of the total 5% limit for closing costs, etc

Non-Agency – Underwriting Requirements

Analyzing the Borrower



Analyzing the Borrower

- **Non-Arm's Length Transactions:**
  - A non-arm's length transaction is one in which there is a direct personal or financial relationship among any of the parties to the transaction.
  - This relationship may add additional risk such as:
    - masking of insufficient cash equity or down payment
    - promoting a sales price that is not indicative of actual market conditions
    - disposing of unsold builder inventory in unfavorable market conditions
- **Non-Arm's Length Requirements:**
  - No subordinate financing
  - Seller concessions not allowed
  - Newly constructed properties must be primary residence
  - Full appraisal plus field review required

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide - Non-Agency > Borrower > Arm's Length Transactions/Non-Arm's Length Transactions

Analyzing Assets



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Asset Types

- **Eligibility**

The Asset Types table below identifies asset types and eligibility

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Annuities – Non-Retirement	X	X	X	X	
Bonuses	X	X			
Borrowed Funds - Secured	X	X	X		
Borrowed-Funds - Unsecured					X
Bridge Loan Proceeds	X	X			
Business Assets	X	X	X		
Checking, Savings, or Share Accounts	X	X	X	X	

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency> Assets>Asset Types- Non-Agency

Asset Types cont.

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Cash on Hand					X
Cash Out Proceeds from a Refinance	X	X			
Cash Surrender Value of Life Insurance	X	X	X	X	
Certificates of Deposit	X	X	X	X	
College Accounts	X	X			
Conversion of Primary Residence – Rental Deposit					X
Custodial Accounts for Children or Others					X

Asset Types cont.

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Earnest Money Deposit	X				
Employer Gifts and Grants *	X				
Foreign Deposit	X	X	X	X	
G'Mach					X
Gambling (not including internet gambling)	X	X	X	X	
Gift Funds	X				
Gifts/Grants (donations from entities	X				
Gift of Equity	X				

Asset Types cont.

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Interested Third Party Contribution	X				
Housing Assistance Program	X				
Lot Equity	X				
Marketable Bonds	X	X	X	X	
Marketable Securities	X	X	X	X	
Non-marketable Securities				X	
Proceeds from Sale of Personal Assets	X	X	X	X	

Asset Types cont.

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Proceeds from Sale of Real Estate	X	X	X	X	
Profit Sharing Plan				X	
Relocation Benefits	X				
Rental or Lease Credit	X				
Repayment of a Loan	X	X	X	X	
Restricted Securities				X	
Retirement Accounts	X	X	X	X	

Asset Types cont.

Asset Type	Funds to Close for Purchase	Funds to Close for Debt Payoff	Reserves Requirement	Compensating Factor	Not Eligible
Stock Options - if Exercisable	X	X			
Sweat (Work) Equity					X
Tax Deferred/1031 Exchanges	X				
Trust Account Funds	X	X	X	X	
U.S. Savings Bonds	X	X	X	X	

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Asset Types, Cont.

Large Deposits

If large deposit (exceeding 50% of total monthly qualifying income) is:	and loan purpose is:	Then:	
needed for closing funds, reserves, or to pay off or pay down debts prior to closing,	Any,	all large deposits reflected on the two most recent months of bank statements used for verification of assets must be fully documented and sourced regardless of the type of account (see Additional Documentation Requirements in this topic)	
not needed for closing funds, reserves, or to pay off or pay down debts prior to closing,	No Cash out	documentation and sourcing is not required	
	Cash Out Refinance, Purchase	use the table below to determine whether verification and/or documentation required:	
		If large deposit identified is:	Then documentation and sourcing is:
		≤ $25,000	not required
		> $25,000 and is a • transfer between borrower's Chase accounts, or • deposit or transfer to borrower's Chase account, or • transfer from borrower's Chase account,	not required
		> $25,000 and was not a transfer from, to, or between borrower's Chase account,	required (see Additional Documentation Requirements in this topic). Alternately, borrower can provide a written explanation (such as email or letter of explanation) or processor certification including: • Source of funds, and • Reason why funds cannot be documented
		Note: For Purchase transactions, unsourced large deposits cannot be used in qualifying and the amount of undocumented large deposits must be subtracted from the verified funds used to qualify.	

Note: Accounts Opened within 90 Days If the available documentation indicates an account was opened within 90 days of the loan application, Correspondent must provide the source of initial funds used to open the account (as well as any other large deposits as outlined in this topic)

Asset Types, Cont.

Large Deposits

Additional Documentation Requirements

Fully documented and sourced is defined as:

- Written explanation from the borrower (such as letter of explanation or email) and documentation verifying the source of the funds, or
- Verbal sourcing and documenting the file by the Correspondent with a processor certification

Refer to table below for additional information regarding readily identifiable deposits:

If source of a large deposit is:	Then Borrower:
readily identifiable on account statement, such as a direct deposit from an employer (payroll), Social Security Administration, or IRS or state income tax refund and source is printed on statement, readily identifiable as a rollover from an IRA or qualified retirement plan per IRS guidelines into another IRA or qualified plan, Note: Transfers between bank accounts must be fully documented and sourced even though they may be readily identifiable (refer to Determination Requirements in Online Guide topic for applicability).	does not need to provide additional documentation or written explanation. Note: If source of deposit is printed on statement, but Underwriter still has questions regarding whether funds were borrowed, Underwriter should obtain additional documentation.
not readily identifiable on account statement,	must fully document and source the funds as defined in Source of Funds for Large Deposits table in Online Guide.

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency> Assets>Source of Funds for Large Deposit

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Analyzing Credit History and Requirements



Credit Requirements and Analysis

- Minimum Trade Line Requirements

The borrower's credit report should include a credit history that meets the following trade line requirements. Each borrower must meet the requirements for one of the options below:

Option	Requirements
1	The credit file must have both of these for each customer: • Minimum three active trade lines with 12 months satisfactory history, on each trade line, and • Minimum 24 month credit file history **Note:** Active is defined as last activity date less than or equal to 12 months from the current date
2	The credit file must have both of these for each customer: • Credit reporting history five years or longer • Acceptable credit score, and • History of four or more trade lines with a minimum 12 month review period o At least one trade line was last active within the past 24 months, and o All trade lines paid as agreed in the last 48 months **Note:** This option does not require trade lines to be active at time of review.

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit History - Non-Agency>Credit Requirements and Analysis - Non-Agency Minimum Tradeline Requirement

Minimum Trade Line Requirements- Example

Mortgage Credit Report
Experian TransUnion Equifax

Date: September 26, 2014

WHOSE		TYPE	REPORTED	HI CREDIT	PAYMENT	30	60	90			
J	**US BANK HOME MORTGAGE** 000000415	Mort	Sep 14	$744,000	$2,988	0	0	0	as agreed		
SOURCE		TERM	OPENED	BALANCE	PAST DUE	-	-	-	MR	LAST LATE	DLA
XP TU EF		360	Jul 13	$726,075	$0				12	-	Sep 14
	Conventional Real Estate Loan Including Purchase Money First										



WHOSE		TYPE	REPORTED	HI CREDIT	PAYMENT	30	60	90			
J	**FORD CRED** 00000845	Auto	Sep 14	$20,982	$582	0	0	0	as agreed		
SOURCE		TERM	OPENED	BALANCE	PAST DUE	-	-	-	MR	LAST LATE	DLA
XP TU EF		36	Nov 13	$14,571	$0				11	-	Sep 14
	Auto Lease										



Only 11 months reviewed

WHOSE		TYPE	REPORTED	HI CREDIT	PAYMENT	30	60	90			
B-I	**BMW FINANCIAL SERVICES** XXXX-2967	Auto	Jan 14	$34,361	$0	0	0	0	paid - as agreed		
SOURCE		TERM	OPENED	BALANCE	PAST DUE	-	-	-	MR	LAST LATE	DLA
XP TU EF		60	Jan 11	$0	$0				37	-	Jan 14
	Auto Loan										



WHOSE		TYPE	REPORTED	HI CREDIT	PAYMENT	30	60	90			
B-I	**CAP ONE** XXXX-5322	Rev.	May 07	$5	$0	0	0	0	paid - as agreed		
SOURCE		TERM	OPENED	BALANCE	PAST DUE	-	-	-	MR	LAST LATE	DLA
XP EF		-	Jun 06	$0	$0				12	-	-
	Closed Or Paid Account/Zero Balance										



No DLA, last reported 5/07

In this example, there are only 2 eligible trade lines and would not meet Option 1. Next, review the full credit report to determine if Option 2 can be met.

Credit Requirements and Analysis

- **Credit Inquires**
  - ✓ Borrower must provide a letter of explanation for inquiries less than 120 days old as of the note date if there is no corresponding trade line on the credit report or application
- **Security Freeze**
  - ✓ A credit decision cannot be rendered without receipt of the consumer's credit information. Frozen credit information must be unblocked by the borrower for full disclosure to the underwriter
- **Suppressed Credit**
  - ✓ Credit reports must be free of suppressed information. Suppressed credit information must be resolved prior to underwriting the loan. If a full credit report is not available, the loan is ineligible

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency> Credit History – Non-Agency> Credit Requirements and Analysis – Non-Agency

Credit Requirements and Analysis

- **Housing Payment History**
  - ❖ Mortgage Reference

A satisfactory Verification of Mortgage payment history (VOM) is required for all mortgages secured by real estate owned by the borrower(s) during the past 12 months regardless of the borrower(s)' credit score

Payment history is verified by one of the following methods:

When…	Acceptable Method
the mortgage Note is held by a lender or mortgage servicer,	• Direct written VOM from the mortgagee or servicer, or • Review of the last 12 months payment history on the current credit bureau report (or the entire mortgage history when open for < 12 months), or • Review evidence of timely payments (for example, copies of canceled checks (front and back), money orders, or bank statements) for the most recent 12 month period prior to the application date.
the mortgage Note is held by a private individual,	• Review evidence of timely payments (for example, copies of canceled checks (front and back), money orders, or bank statements) for the most recent 12 month period prior to the application date (or the entire mortgage history when open for fewer than 12 months), and • Copy of the Note

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Credit History – Non-Agency> Housing Payment History

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Credit Requirements and Analysis

- **Housing Payment History cont.**
  - ❖ Rental Reference

A satisfactory Verification of Rent (VOR) payment history is required for all renters for the past 12 months regardless of the borrower's credit score

Payment history is verified by one of the following methods:

When renting from	Acceptable Method
a professional property management company,	• Direct written (VOR) from the management company that includes: o Rental amount o Payment history o Length of payment history o Landlord's contact information (name, address, and phone number) • Verification on a Residential Mortgage Credit Report (RMCR); the credit-reporting agency must verify rental history directly with the landlord's management agency
an individual owner,	• Review copies of canceled checks, or equivalent substitute, (front and back) money orders, or bank statements evidencing timely payments for the last 12 months' payments, period prior to the application date for borrowers who rent from a property management company (previously only allowed for borrowers renting from an individual owner)

Lease Term and Treatment of Remaining Liability
When a borrower is renting, the potential remaining liability from the lease must be considered in qualification whether renting from a professional management company or an individual owner. Refer to Debt Analysis Guidelines – Non-Agency > **Recurring Obligations Considered in Debt-to-Income Calculations** for details.

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Credit History – Non-Agency> Housing Payment History

Credit Requirements and Analysis

- **Housing Payment History cont.**

Use the following table to determine requirements:

If borrower	Then
qualifies with rental payment included in debt-to-income (DTI) ratio,	it is not necessary to determine the remaining rental term and a copy of the lease is not required.
has liquid assets totaling 12 months of rental payment (in addition to funds needed for closing and reserves),	
does not qualify with rental payment included in debt-to-income (DTI) ratio,	▪ document remaining rental term by obtaining a copy of the fully executed lease agreement (or VOR or similar supporting documentation reflecting remaining obligation when renting from a professional management company), **and** ▪ verify remaining obligation will be satisfied by the first payment date or that the borrower has sufficient reserves (in addition to funds for closing and reserves) to cover the remaining obligation under the lease
does not have assets to cover 12 months of rental payments (in addition to funds needed for closing and reserves),	
Note: Refer to Debt Analysis Guidelines – Non-Agency > Recurring Obligations for exclusion of installment debt when debt will be eliminated by the first payment date of the mortgage.	

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Credit History – Non-Agency> Housing Payment History

Credit Requirements and Analysis

- **Derogatory Credit**

  For consideration, a loan request from borrowers with serious derogatory credit history must meet all seasoning and documentation guidelines and provide:

  - ❖ Satisfactory written explanation accompanied by supporting documentation, and
  - ❖ Compensating factors to offset the layers of risk

  Examples of a serious derogatory event include the following:

  - ✓ Bankruptcy
  - ✓ Foreclosure
  - ✓ Deed-in-Lieu of Foreclosure
  - ✓ Mortgage Delinquency/Housing Debt with any payment 30 days or more past due in the last 12 months
  - ✓ Forgiveness of Debt: Short Sale (also known as pre-foreclosure sale), Short Payoff, Modification with Principal Forgiveness
  - ✓ Collections: non-mortgage accounts in excess of $1,000 in the last 24 months
  - ✓ Charge-offs: non-mortgage accounts in excess of $1,000 in the last 24 months
  - ✓ Judgements in excess of $1,000 within the last 24 months
  - ✓ Tax Liens in excess of $1,000 within the last 24 months
  - ✓ Repossession within the last 24 months
  - ✓ Consumer Credit Counseling

Note: Refer to the complete policy for event date seasoning and payoff requirements for liens and delinquent credit accounts. Credit Guide for additional guidance in ChaseLoanManager > View Guides >Credit Guide – Non-Agency> Credit History – Non –Agency>Derogatory Credit – Non–Agency

Analyzing Debt



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Debt Analysis Guidelines

Recurring Obligations Considered in Debt-to-Income Calculations

- Recurring obligations considered in the DTI Calculation, include but are not limited to:
  - ✓ Monthly housing expense; and
  - ✓ Additional recurring charges, such as
  - ✓ Payments on installment accounts*
  - ✓ Payments on revolving accounts
  - ✓ Child support or Separate Maintenance payments*
  - ✓ Any net loss from a rental property
  - ✓ Monthly payment amounts for other properties including principal and interest on the first lien and any secondary financing; taxes and insurance; and, when applicable, mortgage insurance premiums; leasehold payments, and homeowners association dues (excluding unit utility charges)
- * Installment debt, and child support or separate maintenance payments with fewer than 10 monthly payments remaining may be excluded from the DTI when borrower has liquid reserves sufficient to cover the total of the remaining payments (the account balance).
- This reserve requirement can be waived if the installment debt will be paid in full prior to the date the first payment is due on the new mortgage (such as, when only one or two payments remain).
- When recurring obligations are discovered through review of Loan File documentation, including but not limited to asset statement, Underwriter must perform a thorough review of documentation to ensure all recurring obligations are considered when calculating DTI ratios.

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide - Non-Agency >Debt / Liabilities - Non-Agency> Debt Analysis Guidelines – Non-Agency

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Debt Analysis Guidelines, Cont.

- **Obligations not considered debt and therefore excluded in DTI calculations include, but are not limited to:**
  - Federal, State and Local taxes
  - Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts
  - Commuting costs
  - Union dues
  - Open revolving accounts with zero balances (excluding HELOCs)
  - Automatic deductions to savings accounts
  - Collection accounts reflected on the credit report without a payment, which indicates **no** if a repayment plan has not been established
  - Child care
  - Voluntary deductions

Debt Analysis Guidelines, Cont.

- **Borrowed Funds - Secured:**
  - Exclude payments on loans or lines secured by a borrower's liquid financial assets (such as Certificate of Deposit (CD) marketable Securities, life insurance policies, retirement accounts, other real estate owned)
  - from the DTI when:
    - ✓ Repayment of the loan or line rebuilds the financial asset and
    - ✓ Current verified balance in the account (or value of the financial asset) is sufficient to pay off the loan or line
  - Obtain a copy of the Note or line agreement to verify the terms of repayment and secured nature of the loan or line
  - Verify that the party providing the secured loan is not a party to the sale
  - Verify that the funds have been transferred to the borrower
  - Use the following table to determine value of remaining asset:

Borrowed funds secured by a:	Then reduce value of remaining asset by amount of secured:
loan,	outstanding loan balance.
line of credit,	line's total limit.

Note: see Income- Non Agency>Rental or Investment Property Income- Non Agency>Rental Income Calculation/Analysis>Rental Property Personally Obligated through a Partnership or S-Corporation

Debt Analysis Guidelines, Cont.

- **Asset Secured Loans and Lines of Credit:**

  Refer to the table below to determine requirements for asset-secured loans and lines:

IF…	THEN…
it is evident from the paystub or other documentation (such as an asset statement) that the loan is a 401(k), 403(b), 457(b), or TSP loan,	do not include the payment in DTI calculations and no additional 401(k) loan documentation is required.
loan is secured by another liquid financial asset (such as Life insurance policy, CD, stock, bond, or marketable security),	exclude payments from the DTI when: • Repayment of the loan or line rebuilds the financial asset, and • Current verified balance in the account (or value of the financial asset) is sufficient to pay off the loan Obtain a copy of documentation showing all of the following: • Asset used as collateral for the loan or line • Interest rate and payment • Loan amount or full line amount • Loan or line secured by the financial asset was made by a financial institution

All debts must be considered in the overall underwriting process and in evaluating the general creditworthiness of the mortgage loan customer (refer to debt-to-income (DTI) ratio Overview for additional information).

Notes:

- **If the type of loan is not evident from the paystub, documentation must be provided to support the type of loan.**
- **Loans and lines secured by real estate or other personal property must be included in the DTI.**
- **For requirements on how to treat from an asset perspective, see Credit Guide – Non-Agency > Asset Types – Non-Agency >Borrowed Funds - Secured.**

- **Business Debt in Borrower's Name:**
  - ❖ In order to exclude the debt, documentation must be provided to verify:
    - ✓ Obligation is paid out of company funds (min 12 months verification)
    - ✓ Debt is considered in the cash flow analysis of the borrower's business
    - ✓ No history of delinquency

Note: see Income- Non Agency>Rental or Investment Property Income- Non Agency>Rental Income Calculation/Analysis>Rental Property Personally Obligated through a Partnership or S-Corporation

Debt Analysis Guidelines, Cont.

- **Court Ordered Assignment of Debt**

  Exclude an obligation (including mortgage or real estate secured loan) assigned by court order from the qualifying debt-to-income ratio when all the following conditions are met:

  - Borrower provides a copy of the court order, divorce decree, or separation agreement evidencing the assignment of the obligation to another party
  - Documentation is provided evidencing that the borrower has been removed from title (for a real estate secured obligation)
  - Payment history prior to the date of the assignment is considered

Debt Analysis Guidelines, Cont.

- **Credit Cards (Revolving Charge/Unsecured Lines of Credit):**
  - Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of borrower's recurring monthly debt obligations
  - If no payment amount appears on credit report, include an estimated payment based on greater of $10 or 5% of outstanding balance in DTI
- **Home Equity Lines of Credit (HELOC):**

IF a HELOC…	THEN calculate the minimum payment amount using…
▪ can still be drawn upon (open end), and ▪ is new or unseasoned (< 12 months)*, (Includes HELOCS that are frozen, since the freeze could be lifted by the creditor)	▪ Higher of: ❖ Payment shown on credit report (or obtained from documentation from the creditor, or ❖ 1% of the full line amount
▪ can still be drawn upon (open end), and ▪ is seasoned (open date ≥ 12 months)*,	▪ Higher of: ❖ Payment shown on credit report (or obtained from documentation from the creditor), or ❖ 1% of the current HELOC balance based on verified information in the loan file Seasoned HELOCS with a zero balance have no payment amount for the purpose of calculating the DTI.
is in the repayment period only and cannot be drawn upon (closed end),	payment shown on credit report (or obtained from documentation from the creditor), even when that amount is less than 1% of the full line amount.

***Credit report or alternative documentation must reflect the month/year that the HELOC was opened for purposes of defining seasoning.**

Debt Analysis Guidelines, Cont.

- **30 Day Charge Accounts:**
  - A 30-day charge account is defined as an account where the borrower must pay off the total outstanding balance each month
  - There are no alternative monthly payment options
  - For open 30-day charge accounts (for example, AmEx), the borrower must have sufficient verified liquid assets to pay off the balance and meet the reserve requirements for the loan program to exclude the payment from the qualifying DTI

IF sufficient liquid assets are..	Then reduce value of remaining asset by amount of secured:
verified,	exclude the reported monthly payment from the DTI
Not verified,	obtain evidence that the account has been paid in full and exclude the reported monthly payment from the DTI, or include the monthly payment (equal to the outstanding account balance) in the calculation of the qualifying DTI
Note: If the account provides for a monthly payment option other than the total outstanding balance, the account is not considered a 30-day charge account and these requirements do not apply	

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Debt Analysis Guidelines, Cont.

- **Accounts with Variable Payment Options:**
  - Some accounts provide flexible payment options where a portion of the balance is required to be paid in full and the other portion is treated as a revolving balance with a minimum due requirement

IF…	THEN…
a statement has already been included or provided detailing flexible payment options,	review the statement to establish the proper treatment of each option.
credit bureau report is unclear as to the type of account that is being reported (such as, account reports as both revolving and open),supporting documentation must be provided in order to establish how the account should be treated	

Debt Analysis Guidelines, Cont.

- **Margin Debt:**
  - Exclude margin account from DTI when all of these are true:
    - Assets within brokerage account securing margin account are clearly identified
    - Margin account balance is deducted from borrower's marketable security total
  - To properly reflect borrower's net worth, use adjusted balance of asset excluding margin debt as a liquid asset on Mortgage Application
- **Installment Debt:**
  - Include installment debt in the DTI calculation when there are 10 or more monthly payments remaining.
  - Installment debt with fewer than 10 monthly payments remaining may be excluded from the DTI when borrower has liquid reserves sufficient to cover the total of the remaining payments (the account balance).
  - This reserve requirement can be waived if the installment debt will be paid in full prior to the first mortgage loan due date (such as, when only one or two payments remain)

Note: It is not acceptable to pay down the obligation to less than 10 payments in order to exclude the payment from the DTI calculation.

Debt Analysis Guidelines, Cont.

- **Lease Payments:**

  Include lease payments regardless of the remaining term as borrower will typically be subject to either of these at the end of the lease term:

  - Buyout of the lease (such as, purchase of the vehicle)
  - New lease obligation

Debt Analysis Guidelines, Cont.

- **Student Loans:**

  Use the following table to calculate the qualifying monthly payment for all student loans, whether deferred, in forbearance, or in repayment:

IF student loan is in...	THEN...
repayment,	**greater of** the following (as reported on the credit report): ▪ 0.5% of the outstanding balance, or ▪ Actual payment amount
deferment or forbearance,	**greater of** the following (as reported on the credit report): ▪ 1% of the outstanding balance, or ▪ Actual payment amount
forgiveness program or cancellation,	exclude the student loan payment from the monthly DTI when borrower meets requirements for loan forgiveness and the loan file contains documentation supporting: ▪ there are fewer than 10 monthly payments remaining until the full balance of the loan is forgiven or canceled, **or** ▪ monthly payment is deferred or is in forbearance and the full balance will be forgiven or canceled at the end of the deferment or forbearance period
employment-contingent repayment program	exclude the student loan payment from the monthly DTI when borrower meets requirements of the program and the loan file contains documentation supporting: ▪ there are fewer than 10 monthly payments remaining until the full balance of the loan is paid , **or** ▪ monthly payment is deferred or is in forbearance and the full balance will be paid by the program at the end of the deferment or forbearance period

Debt Analysis Guidelines, Cont.

- **Taxes and Insurance:**
  - The actual monthly amount of taxes, insurance, homeowners association (HOA) fees, and special assessment fees should be included in the DTI
    - ✓ New Construction - In most cases, a comprehensive and accurate property assessment will not yet be done on new or newly completed construction; therefore, Underwriter must qualify the borrower using the estimate of the property taxes reflected on the appraisal. Refer to Appraisal and Property Requirements > Appraisals > New and Newly Completed Construction for additional information regarding estimated tax calculations
  - California
    - ✓ All purchase or new construction transactions are assessed as of the 1st of the month following the date of transfer
    - ✓ Actual taxes on purchase or new construction transactions must be based on this projected assessment
    - ✓ In purchase money transactions where we lack definite indicators of taxes, use 1.25% of the purchase price as the total annual tax estimate and pro-rate this on a monthly basis

Debt Analysis Guidelines, Cont.

- **Taxes and Insurance cont.:**
  - Homestead Tax Exemptions

    The following table provides requirements for applying tax exemptions:

If the transaction is a…	Then…
Refinance,	the amount of taxes after the exemptions have been deducted may be used to qualify

Purchase,	the reduced Homestead Exemption (or state equivalent language) tax amount can be used only when:
	• Subject property is not new construction and the current reported tax amount represents the amount on the land plus improvements.
	• Loan is for an owner-occupied primary residence
	  o Any current primary residence must be sold and documented with a HUD 1 or Closing Disclosure (CD) to meet this requirement
	  o Conversion of Primary Residence does not apply
	• Loan file must contain a breakdown showing how the tax amount used to qualify was calculated

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Debt Analysis Guidelines, Cont.

- **Tax Abatements:**
  - Tax abatements are a temporary reduction in the actual amount of taxes that the owner(s) of a property must pay. Use the abated (reduced) amount of taxes in the qualifying DTI, when all of these requirements are met:
    - ✓ Government municipality offers the abatement
    - ✓ Neither the seller, nor any other interested party pays the abatement to the borrower
    - ✓ Documentation supporting the amount and term of the abatement is in loan file
    - ✓ Full amount of the abatement is in effect for minimum of 5 years from loan closing date and cannot terminate partially or fully within that period of time Examples:
      - Municipality with a 10-year abatement – qualify the borrower using reduced tax amount
      - Municipality with a 10-year abatement with annual real estate tax increases in years 1 through 10 – qualify borrower with the annual taxes that will be required at the end of the fifth year after the first mortgage payment date

Note: Never use tax abatements as a source qualifying income. See Property and Appraisal Requirements > Appraisals for tax abatement requirements.

Subordinate Financing

- **Reduced or Frozen Home Equity Line of Credit (HELOC) :**
  - Definitions of reduced and frozen HELOCS:

IF line of credit…	THEN line is considered…
• is frozen at the current outstanding balance (draws temporarily unavailable) • may become available at a future date without borrower(s) reapplying,	frozen
• is permanently reduced and/or modified • borrower(s) are required to reapply and qualify to increase the credit line at a future date,	reduced

Restriction Type	Subordinate Financing Requirements
CLTV/HCLTV	If the subordinate loan is a home equity line of credit (HELOC), use: • Outstanding balance to calculate CLTV • Line limit to calculate HCLTV If documentation is obtained confirming the HELOC is no longer in its draw phase and cannot be opened to additional draws in the future, then the outstanding balance can be used to calculate CLTV/HCLTV.

Note: A copy of the subordination agreement and note is required to confirm the terms meet Chase's eligibility requirements. A complete list is included in the policy:

Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency> Debt/Liabilities Non-Agency>Subordinate Financing .

Subordinate Financing cont.

- **Reduced or Frozen Home Equity Line of Credit (HELOC) - Documentation and HCLTV Calculations**

Frozen
Use the higher of the original line limit or unpaid principal balance to calculate HCLTV

Reduced		
If the reduced HELOC is…	AND loan file contains…	THEN use the following to calculate HCLTV…
Chase,	modification letter signed by the borrower(s) reflecting decreased line amount,	the higher of the reduced line or the unpaid principal balance
	letter from Chase indicating the HELOC was permanently reduced. Letter must: • State the amount to which the HELOC has been reduced • Include the date of the HELOC reduction	
Non-Chase	letter from the subordinate lien holder on their letterhead indicating the HELOC was permanently reduced. Letter must: • State the amount to which the HELOC has been reduced • Include the date of the HELOC reduction,	
	recorded modification agreement,	
	modification agreement that is executed but not recorded,	the higher of the original line limit or the unpaid principal balance

Note: See Subordinate Financing for additional requirements.

Analyzing Employment



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Employment Stability Standards

- **Analyzing Borrower's Employment Record:**
  - When analyzing the borrower's employment, the following must be considered as part of the analysis:
    - Borrower's past employment record
    - Employer's confirmation of current, ongoing employment status

IF the borrower has…	AND…	THEN…
generated income for 2 or more current and consecutive years,	employment is in the same or related field with any number of employers,	underwriting decision may be based on the borrower's current income.
fewer than 2 years current and consecutive employment history,	is a new entrant into the workforce,	provide documentation to prove stability and potential (for example: diploma, military discharge papers, job training certificate, or transcripts).
	is re-entering the workforce,	provide documentation to evidence: • minimum of a 6-month current and consecutive employment history with the same employer, and • previous work history (see **Re-Entering the Workforce** policy for more information).

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Employment>Employment Stability Standards

Note: If a borrower changes jobs frequently within same line of work, but continues to advance in income or benefits, income stability takes precedence over job stability.

Employment Stability Standards

Verification of Employment:

- Two Year Previous and Current Employment History
- Prior to closing, borrower's employment history must be verified for all employers for the most recent two full years and include:
  - Direct verification (written or verbal) with all current and past employers, and
  - Exact dates of employment (such as, start and end dates)
- The borrower must provide a satisfactory explanation for any gaps in employment of 30 days or more.

Employment Stability Standards

Verification of Employment:

Income of borrowers who are re-entering the workforce after an absence of six months or more may be considered effective and stable and can be used for qualifying if:

- Borrower has been at the current employer for a minimum of six months

Can document a two-year work history prior to an absence from employment using:

- Employment verifications, and/or
- Copies of IRS Form W-2s or pay stubs

Refer to Temporary Leave of Absence in the Employment Income – Non-Agency topic for information regarding maternity or parental leave, short-term medical disability, workers' compensation, or other temporary leave types that are acceptable pursuant to applicable law or the borrower's employer.

Analyzing Income



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General Income Verification Requirements

- **Analyzing Borrowers Income:**
  - Income of each borrower who is obligated for mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue
  - Income from sources other than salary and wages can be considered as potential qualifying income, when properly verified and documented
- **Analyzing IRS Form 1040:**
  - Amount shown on IRS Form 1040 as adjusted gross income must either be increased or decreased based on Underwriter's analysis of the individual tax return and any related tax schedules

Note: Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide - Non-Agency> Income - Non-Agency General Income Verification Requirements – Non-Agency

General Income Verification Requirements, Cont.

IRS Form 1040 Heading	Requirements
Wages, Salaries and Tips	An amount shown under this heading may indicate individual: • Is a salaried employee of a corporation, or • Has other sources of income This section may also indicate borrower's spouse is employed, in which case spouse's income must be subtracted from borrower's gross income
Business Income and Loss (Schedule C)	Sole proprietorship income calculated on Schedule C is business income Amortization, Depreciation or depletion may be added back to adjusted gross income **Note:** Adding back business use of home is not acceptable
Rents, Royalties, Partnerships (Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any amortization and depreciation shown on Schedule E
Capital Losses (Schedule D)	Capital gains or losses generally occur only one time and should not be considered when determining qualifying income. However, if borrower has a constant turnover of assets resulting in losses, capital loss must be considered More than two years of tax returns may be required to analyze the trend. If trend consistently shows a loss, it must be deducted from total income **Note:** Capital gains income is not permitted

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides - Credit Guide- Non-Agency>Income- Non-Agency>General Income Verification Requirements-Non Agency>Analyzing IRS Form 1040

General Income Verification Requirements, Cont.

IRS Form 1040 Heading	Requirements
Interest and Dividend Income (Schedule B)	Interest and dividend income may be added back to adjusted gross income only if it: • Has been received for past two years, and • Is expected to continue If interest-bearing asset is liquidated as a source of the cash investment, Underwriter must appropriately adjust the amount
Farm Income or Loss (Schedule F)	Any depreciation shown on Schedule F may be added back to adjusted gross income
IRA Distributions, Pensions, Annuities and Social Security	Non-taxable portion of these items may be added back to adjusted gross income if income is expected to continue for first three years of mortgage
Employee Business Expenses	Employee business expenses are actual cash expenses that must be deducted from adjusted gross income
Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions • Penalties on early withdrawal of savings • Health insurance deductions • Alimony payments

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Employment Income – Salary Sources

- **General Requirements for Salaried Borrowers**
  - Income may not be used in calculating borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue
- **Military Leave and Earnings Statement (LES)**
  - As part of verification process, there must be documentation that the applicable supplemental income source(s) are likely to continue such as (Flight/hazard pay, Pro-pay, BAS, BAH)
- **Primary Employment Less than 40 Hour Work Week**
  - When a borrower's primary employment is less than a typical 40-hour work week, stability of income should be evaluated as regular, ongoing primary employment
- **Partial Year Income**
  - Certain borrowers (such as teachers and forest firefighters) may be paid for only part of the year. Underwriting must ensure that the monthly qualifying income calculation considers this partial-year employment. To determine partial-year qualifying income, multiply the monthly salary by the number of months the borrower is paid and divide by 12 ("annualizing" the income).

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides >Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Salaried Sources- Non Agency

Employment Income – Salary Sources cont.

- **Employment Contracts**
  - An employment contract is a legally enforceable written document executed jointly by the employer and employee. Employment agreements and offer letters are additional forms of employment contracts, provided they are fully executed by all parties and include all required
  - Typically utilized with professionals such as doctors, lawyers, and teachers
- **Employment Contract Requirements**
  - The employment contract (including employment agreements and offer letters) should define pertinent employment details including:
    - ✓ Employment start date
    - ✓ Salary
    - ✓ Length of employments
  - Employment contracts that expire in less than three years must be carefully evaluated by the Underwriter, applying the same level of employment and income stability scrutiny applied to other salaried borrowers.

Refer to Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Salaried Sources- Non Agency

Employment Income – Salary Sources cont.

- **Employment Contract Requirements cont.**
  - The contract may also include such things as benefits and other related terms of employment. A borrower may be qualified using the income documented in the employment contract provided:
    - ✓ Employment contract is fully executed by the employer and employee
    - ✓ Employment contract does not contain contingencies
    - ✓ Terms of the contract are deemed reasonable by the Underwriter
    - ✓ Loan application and file documentation verify the required minimum two-year employment history for the borrower
      - Underwriter may elect to accept college transcripts in lieu of employment history
    - ✓ Contract is included within the closed loan file submitted to Chase

Refer to Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Salaried Sources- Non Agency

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Employment Income – Salary Sources cont.

- **Employment Contract Requirements cont.**
  - Eligible transaction and additional requirement guidelines are followed based on the employment start date:

If Employment begins	THEN eligible transactions are	And
prior to closing,	• purchase and refinance • property type and occupancy as permitted by product type	N/A
within 60 days after closing,	• purchase only • 1-unit primary residences only	additional six months reserves (plus any reserves required by Product Guide) must be documented in file
More than 60 days after closing,	N/A	loan is not eligible for sale to Chase

Refer to Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Salaried Sources- Non Agency

Employment Income – Salary Sources cont.

- **Employment Contract Requirements cont.**
  - Verbal Verification of Employment (VVOE) is completed within 10 days of closing and confirms one of the following:

If Employment begins	THEN VVOE must confirm…
prior to closing,	borrower has started his or her employment based on the terms reflected in the employment contract,
within 60 days after closing,	terms of employment have not changed,

Refer to Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Salaried Sources- Non Agency

Employment Income – Self Employed

- **General Requirements for Self-Employed**
  - Generally, income from self-employment is considered stable, and can be considered in qualification if borrower has been self-employed for a minimum of two years operating the same business
  - Analyze business's financial strength by examining annual earnings. Annual earnings stable or increasing may be acceptable, while businesses showing a declining income over analysis period are generally not acceptable
- **Documentation Requirements for Self-Employed Borrowers**
  - An unaudited year-to-date (YTD) Profit and Loss (P&L) Statement and Balance Sheet is required when:
    - Application is dated more than 90 days after the end of the business' year end (calendar or fiscal), regardless of the type of business, or
    - Tax returns do not provide a full 24-month history of self employment (P&L to cover any part remaining)
    - Business is a Sole Proprietorship (Schedule C business) (regardless of date of application or most recent tax filing date)
  - The unaudited P&L Statement and Balance Sheet may be prepared by either the borrower or a third-party such as:
    - Borrower's tax preparer
    - CPA
    - Company bookkeeper

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides >Credit Guide – Non-Agency>Income – Non-Agency>Employment Income- Self Employed Sources - Non Agency

Employment Income – Self Employed cont.

- **Establishing a Self-Employed Borrower's Earnings Trend:**
  - The borrower's self-employed earnings trend from the previous two years must be established using the borrower's Individual federal tax returns and supplemented by P&L and balance sheet statements when applicable
  - In addition, the Underwriter must perform a written analysis of a business's viability using Fannie Mae Form 1088
  - Any increase in income shown on the P&L Statement, when compared to the final income calculation from the tax returns, cannot be used to qualify, regardless of whether the P&L is audited or unaudited; base income analysis solely on income verified through tax returns
  - If P&L Statement reflects a decrease in income when compared to final income calculation from the tax returns, then income reflected on the P&L statement alone must be used to qualify

Note: P&L statements do not need to be audited in any instances and are required whether business reports income or losses, no matter how insignificant



Employment Income – Self Employed cont.

- **Documentation Requirements**

❖ All Self-Employed Borrowers

The following is required for all self-employed borrowers (including K-1 recipients).

IF borrower...	THEN the following documentation is required...
• qualifies with self-employed business **losses**, including K-1 losses, **or** • has positive K-1 income but does not use it to qualify,	• Minimum of the most recent two years of signed and dated individual federal tax returns including all schedules • Tax returns must reflect a minimum of 12-months self-employment (losses must be considered in qualifying income regardless of length of self-employment reflected on tax returns) **Note:** Internal Revenue Service (IRS) Form 4506-T is required (refer to *Tax Transcript Requirements for Income Documentation* > **Documentation Requirements**

Employment Income – Self Employed cont.

IF borrower...	THEN the following documentation is required...
• uses self-employed income (including K-1) to qualify, **or** • needs full documentation to offset self-employed losses,	• Minimum of the most recent two years of signed and dated individual federal tax returns including all schedules, K-1s, statements, and attachments Tax returns must reflect a minimum of 12-months self-employment (losses must be considered in qualifying income regardless of length of self-employment reflected on tax returns) • Minimum of the most recent two years signed and dated business tax returns including all schedules and statements Most recent two years of K-1s from Partnership, LLC, or S-Corporation (refer to *K-1 Requirements* topic for details) • Most recent two years of W-2s from the corporation (if applicable) • A year-to-date (YTD) Profit and Loss (P&L) Statement and Balance Sheet, signed and dated by the preparer. This is required when: Tax returns do not provide a full 24-month history of self employment (P&L to cover any part remaining), or • Application is dated more than 90 days after the end of the business' year end (calendar or fiscal), regardless of the type of business For Schedule C Businesses (Sole Proprietorship): A balance sheet is required for all transactions, **regardless** of the date of the mortgage application or most recent tax filing date. • The P&L Statement and Balance Sheet can be prepared by the borrower or a third-party (such as borrower's tax preparer, CPA, or company bookkeeper) and is **not** required to be audited • When required, the P&L statement must reflect the information covering the interim period from the end of the most recently obtained tax returns through the business's most recently completed financial quarter • P&L Statement and Balance Sheet expire 120 days from the Note date **Note:** Internal Revenue Service (IRS) Form 4506-T is required (refer to *Tax Transcript Requirements for Income Documentation* > **Documentation Requirements**

Employment Income – Self Employed cont.

Topic	Requirements
Partnership	Both general and limited partnerships report income on IRS Form 1065, and partners' share of income is carried over to Schedule E of IRS Form 1040. IRS Form 1065 must be reviewed to assess viability of the business: • Amortization, depreciation, and depletion may be added back to income in proportion to borrower's share of income • Income must be reduced proportionately by total obligations payable by partnership in less than one year including Mortgages, Notes, and Bonds
S-Corporation	• S-Corporation amortization, depreciation, and depletion may be added back to income in proportion to borrower's share of corporation's income • Income must be reduced proportionately by total obligations payable by corporation in less than one year including Mortgages, Notes, and Bonds

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Employment Income – Self Employed cont.

<table>
<tr><th>Topic</th><th>Requirements</th></tr>
<tr><td>Corporation</td><td>
When a borrower's percentage of ownership in a corporation does not appear on corporate tax returns, it must be obtained from corporation's accountant, along with evidence borrower has the right to any compensation.

In order to determine a borrower's self-employed income from a corporation:

Determine adjusted business income, and
Confirm borrower's percentage of ownership is 100%

The table below describes the items found on IRS Form 1120 for which adjustments are made to determine adjusted business income:
<table>
<tr><th>Adjustment Item</th><th>Description</th></tr>
<tr><td>Amortization, Depreciation, and Depletion</td><td>Add corporation's amortization, depreciation, and depletion back to
after-tax income.</td></tr>
<tr><td>Taxable Income</td><td>Taxable income is corporation's net income before Federal taxes. Reduce taxable income by tax liability.</td></tr>
<tr><td>Fiscal Year versus Calendar Year</td><td>If corporation operates on a fiscal year different from calendar year, an adjustment must be made to relate corporate income to individual tax return.</td></tr>
<tr><td colspan="2">Note: Net operating losses cannot be added back into the income</td></tr>
</table>
</td></tr>
<tr><td>Cash Withdrawals</td><td>The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.</td></tr>
</table>

Note: As a reminder, cash withdrawals from the business may potentially have a severe impact on business operations and must be considered in income analysis.

Schedule K-1 Requirements

- **Income or Loss Reported on Schedule K-1**

  Use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow when:

  - Borrower can document ownership share (can use Schedule K-1)
  - Borrower can document access to the income, and
  - Business has adequate liquidity to support the withdrawal of earnings

  Net rental income must meet requirements outlined in Rental and Investment Property in the Rental and Investment Property Income – Non-Agency topic.

  Note: K-1s, P&L and balance sheet are not required when income is not being used to qualify or borrower qualifies with the loss.

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide- Non-Agency>Income – Non-Agency>Schedule K-1 Requirements

Schedule K-1 Requirements cont.

- **Income or Loss Reported on Schedule K-1 for borrowers owning 25% or more cont.**

  ❖ Documentation Requirements

  When the borrower, or multiple borrowers, controls 25% or more of the business, the following minimum requirements apply:

  - ✓ Individual Federal tax returns as indicated in General Income Verification Requirements – Non-Agency
  - ✓ Minimum of the most recent two years signed and dated business tax returns including all schedules and statements
  - ✓ The most recent two years of IRS Schedule K-1

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide- Non-Agency>Income – Non-Agency>Schedule K-1 Requirements

Schedule K-1 Requirements cont.

- **Income or Loss Reported on Schedule K-1 for borrowers owning < 25% cont.**
  - ❖ Documentation Requirements

  For Schedule K-1 documentation requirements, the borrower must provide:

  - ✓ Most recent two years of signed individual federal income tax returns, and
  - ✓ Most recent two years of IRS Schedule K-1

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide- Non-Agency>Income – Non-Agency>Schedule K-1 Requirements

Note: Refer to the Partner Income topic for more information on borrowers with an ownership interest less than 25% in a partnership: View Guides>Credit Guide- Non Agency>Income Non-Agency>Employment Income-Salaried Sources.

Other Income

- **Non-Taxable Income:**
  - Amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to borrower's gross income
  - Percentage of non-taxable income that may be added cannot exceed appropriate tax rate for income amount
  - Tax rate used to calculate borrower's most recent year's income tax return must be utilized to gross up acceptable sources of income
  - If borrower is not required to file a Federal tax return, use 25% as tax rate
- **In the Other Income- Non- Agency topic:**
  - Refer to the table included when a customer discloses income eligible to be grossed up on the application.
  - Gross up newly received sources of income only when the income source has been determined, via verifiable documentation, to be non-taxable in all instances

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide - Non-Agency> Income - Non-Agency> Other Income – Non-Agency >Non Taxable Income topic

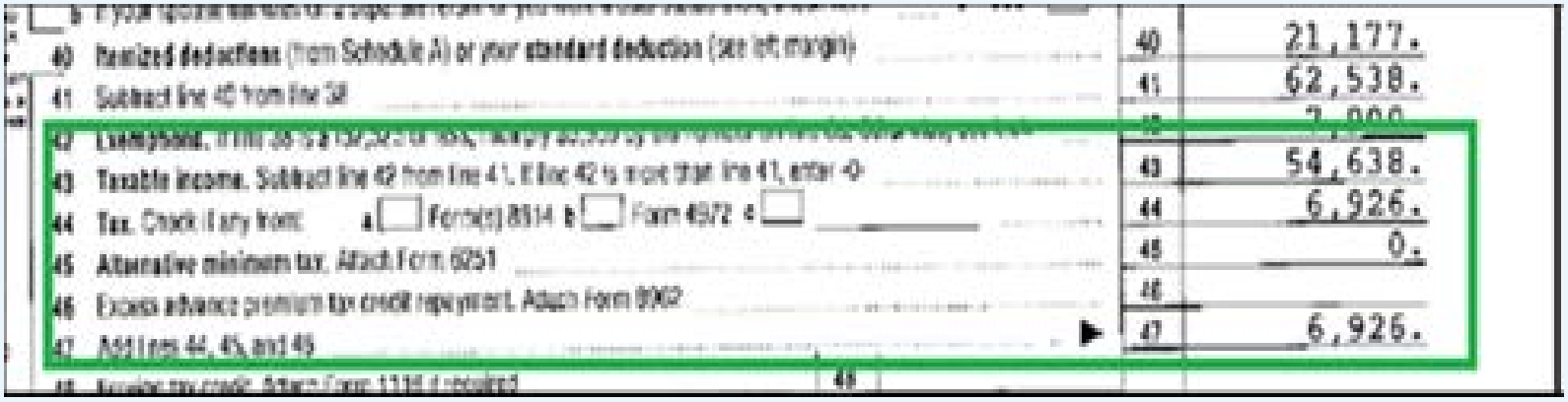
Note: Refer to the Other Income Sources Taxability Table for a detailed list of nontaxable income sources and documentation requirements.



Other Income Cont.

- **Grossing Up Income:**
  - Tax returns are required in all situations where income is being grossed up to qualify (unless borrower is not required to file a tax return)
  - In this example:

    Tax is found on line 44 and Taxable Income on line 43.
    - ✓ $6926/$54,638 = .13
    - ✓ Any non-taxable income would be grossed up by 113%



Other Income, Cont.

- **Automobile Allowance and Expense Account Payments:**
  - Only amount by which consumer's automobile allowance or expense account payments exceed actual expenditures may be considered income
  - To establish amount to add to gross income, the following is required:
    - ✓ IRS Form 2106, Employee Business Expenses, for previous two years (if applicable)
  - Employer verification payments will continue
  - If borrower uses standard per-mile rate in calculating automobile expenses, as opposed to actual cost method, the portion IRS considers depreciation may be added back to income
  - Expenses that must be treated as recurring debt include:
    - ✓ Borrower's monthly car payment
    - ✓ Any loss resulting from calculation of difference between actual expenditures and expense account allowance

Note: Refer to Credit Guide for complete list of eligible other income sources ChaseLoanManager > View Guides > Credit Guide - Non-Agency > Income - Non-Agency > Other Income - Non-Agency

Other Income, Cont.

Topic	Requirements
Alimony, Child Support, and Separate Maintenance Income	Income from these sources must be seasoned a minimum of 12 months and 12 months proof of receipt is required. Any one of the following is acceptable proof of receipt: • Municipal or court records of payment history • Bank statements • Bank deposit slips • Tax returns • Cancelled checks **Note:** Income received for less than 12 months is considered unstable and may not be used towards loan qualification. If payments are not for full amount or are made on an inconsistent or sporadic basis, income is not acceptable. **Note:** Documentation must support that the alimony, child support or separate maintenance income will continue for at least three years. In addition, if the income source is from child support, then proof of the ages of the children receiving the support is required to confirm a three-year continuance of the income.

Other Income, Cont.

Topic	Requirements
Bonus Income	To use bonus income for qualification, Underwriter must carefully consider the source, method of payment, and the basis upon which the income is earned (such as, personal sales or company profit).

Note:
- Sign on bonuses and similar one-time payout bonuses (such as, spot bonus/awards) are not eligible
- If bonus income varies significantly from year to year, documentation for more than two years is required to use the income to qualify borrower
- Projected bonus income that has no historical basis or bonus income structured as a forgivable loan is not an acceptable source of income

IF annual bonus income…	Then…
is level or increasing from one year to the next,	income is considered stable. See below for requirements.
shows a decline,	• earnings should not be averaged, and • must be carefully analyzed before considered stable income • Underwriter must document in writing a sound rationalization for including the income when qualifying the borrower

To use bonus income for qualification:

- Document a consecutive, recent, two-year history with the same employer. If the borrower has changed employers, the bonus income can be accepted if borrower:
  - Is employed in a similar position in the same industry, and
  - Has received bonus income from the new employer
- Provide a year-to-date pay stub reflecting bonus income
- Bonus income must be separately stated for the two-year period
- Must be reasonable expectation the income will continue. Documentation must not indicate that the income will likely cease
- Provide copies of the borrower's W-2s or federal income tax returns for the past two years
  - Tax returns must have been filed with the IRS

Refer to Credit Guide – Non-Agency > Income – Non-Agency > General Income Verification Requirements > Written Verification of Employment
Note: Underwriter should consider whether or not a Written Verification of Employment is required when the income documentation does not provide the breakdown of bonus income or is not clear.

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Other Income, Cont.

Topic	Requirements
Capital Gain or Loss	If borrower has a constant turnover of assets resulting in losses, capital loss must be considered. More than two years of tax returns may be required to analyze trend. If trend consistently shows a loss, it must be deducted from total income. Note - Schedule D must be analyzed to determine is the trend consistently shows a loss. **Example:** In those instances when the tax returns reveal an active trading loss in the current year and a carryover loss in the previous year, the underwriter should request the third year of returns to determine whether or not a trend for losses exists. **For example:** In 2014, the taxpayer reports active trading losses of $15000; they report no active losses in 2013 but report a carryover loss. The underwriter should request the 2012 return to determine if there was an active loss in that year. If the carryover was not from 2012, but a prior year, there is no trend. If there was an active trading loss in 2012, we would consider the losses to be a trend and income would be reduced accordingly. **Note:** Capital gains income is not permitted.
Commissioned Borrowers and Borrowers Paid by Incentive	To include commission income in the qualification: • Document a consecutive, recent, two-year history in the same field • It must be stated separately for the recent two-year period • Copies of the borrower's W-2s (or 1099s) and signed Federal income tax returns for past two years are required • Tax returns must be filed with IRS
Overtime Salary Income	• Documentation submitted for loan must not indicate income will likely cease • A period of more than two years must be used in calculating average overtime income if income varies significantly from year to year • If overtime income shows a continual decline, Underwriter must document in writing a sound rationalization for including overtime income when qualifying borrower
Note: Underwriter should consider whether or not a Written Verification of Employment or year-end paystubs is required when the income documentation does not provide the breakdown of bonus income or is not clear.	



Other Income, Cont.

Topic	Requirements
Part-Time or Second Job Income	To use part-time or second job income to qualify a borrower, carefully consider source and sustainability of income. In addition, the following is required: • Minimum 24-month uninterrupted history for second job and • Reasonable expectation the income will continue • Recent paystubs showing YTD earnings • Previous two years W-2s • Borrower must indicate intention to continue working part-time or second job
Seasonal Income	Seasonal income is a recurring but temporary source. To use seasonal income to qualify there must be: • Two-year historical record of earnings in the same type of job • Recent pay stubs or written VOE showing year-to-date earnings • Previous two years W-2s • Reasonable expectation the income will continue • Borrower must indicate expectation to be re-hired

Refer to Credit Guide – Non-Agency > Income – Non-Agency > General Income Verification Requirements > Written Verification of Employment

Note: Underwriter should consider whether or not a Written Verification of Employment is required when the income documentation does not provide the breakdown of bonus income or is not clear.

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Other Income, Cont.

Topic	Requirements
Social Security Income	• Copies of most recent bank statement or check stub • Social Security Administration (SSA) award letter (also known as proof of income letter; budget letter; or proof of award letter) is required in all cases. IRS Form 1099 or personal tax return cannot be used in lieu of award letter • If any benefits expire within first full three years of mortgage, income may not be used in qualifying • If SSA benefit verification letter does not indicate a defined expiration date within three years of loan origination, consider income effective and likely to continue • Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication benefit payments are not likely to continue
Trust Income	Trust Agreement provided **must** confirm: • Amount of trust • Balance and assets of the trust principle support the continuance of the income stream • Mandatory distributions or a history of previous distribution to the applicant • Trust is an irrevocable trust • Frequency of distributions • Duration of payments (must support a minimum of three years continuance) • Borrower may use funds from trust account for required cash investment, but trust income used to determine repayment ability cannot be affected negatively by its use

Other Income, Cont.

Retirement /Pension

Retirement or pension income and retirement assets that have been set up for regular distribution payments can be used as qualifying income. The regular distributions must be no less frequent than annual.

IF payments are received…	THEN evidence of consistent receipt must include…
monthly,	most recent bank statement, equivalent check stubs, or other equivalent documentation.
quarterly, semi-annually, annually, or any other consistent, recurring distribution interval,	bank statement, check stub or other equivalent documentation supporting receipt of the most recent payment within the past 12 months period.

In addition to evidence of receipt, one of the following documents that confirms the income type, source, amount, and frequency of payment must be provided:

- Written verification from the organization paying the income
- Copy of the most recent award letter
- Most recent two years personal tax returns

Note: For distributions from a 401(k), IRA, or Keogh retirement account, documentation evidencing that the borrower is required (under IRS Regulations) to take minimum annual distributions is acceptable in lieu of evidence that the account has been set up for formal distribution payments.

When retirement income is paid in the form of a distribution from an IRA, 401(k), or Keogh retirement account, verification of the following is required:

- Funds being used for the distribution is required
- Borrower's unrestricted access without penalty to the accounts

Note: In addition to the requirements above, a minimum of three years continuance must be verified in all cases. If any retirement income will cease within the first three years of the mortgage loan, the income cannot be used in qualifying.

Rental Management History and Stability

To use rental income from subject or non-subject investment properties in loan qualification, borrower must meet the requirements in the table below:

Transaction Type	Requirements
Borrower is purchasing an investment property using rental income from the subject property and currently does not own their primary residence	• Borrower must demonstrate through tax returns at least a two-year history of managing 1- to 4-unit investment properties, The two-year management history must be consecutive and must have occurred (in part or in whole) during the 36 months prior to the mortgage application date
All other transaction types	One of the following options is required: • Demonstrate through tax returns at least a two-year history of managing 1- to 4-unit investment properties. The two-year management history must be consecutive and must have occurred (in part or in whole) during the 36 months prior to the mortgage application date; or • Provide evidence of an additional six months of reserves (based on the PITIA of the subject property). These reserves are in addition to any other reserves required for the loan transaction.
Refer to the Rental and Investment Property Income- Non- Agency topic for additional documentation requirements based on Occupancy, Property Type and Seasoning: View Guides>Credit Guide- Non-Agency>Income- Non-Agency>Rental or Investment Property Income- Non Agency.	

Notes:

- If other REO properties were acquired more than two years ago and subsequently do not reflect two years on Schedule E, then current, fully executed leases without gaps can be used along with tax returns to complete the two-year personal management history
- Two-year history requirement must be from the borrower's direct management of personally owned investment properties and cannot be attained from properties owned and managed through business entities



Rental or Investment Property Income cont.

Topic	Requirements
Current Fully Executed Lease Agreement(s)	Current, fully executed lease agreements are required for both seasoned and unseasoned rental income. Follow IRS Form Schedule E for calculation and analysis of seasoned rental income. Note: If reported on tax return but returns reflect less than one year of rental income, treat as unseasoned. • Rental income derived from leases should be carefully analyzed to ensure there is a reasonable expectation that the income will continue. Lease agreements must be current and enforceable at the time of underwriting. • If a lease is expired and does not provide a month to month provision, the lease is not acceptable. • If the lease contains provisions that convert it to a month-to-month lease, include a copy of the lease and evidence of the most recent one month's receipt of the rental income in the Loan File submitted to Chase. **Note:** If, under state law, there are provisions under which a month-to-month lease becomes enforceable, the lease may be acceptable when it is fully compliant with those state law requirements. Include a copy of the statutory support in the loan file.

Note: Rental Income Not Used to Qualify when rental income is earned but not used to qualify, the full principal, interest, taxes, insurance and assessments (PITIA) amount as well as recurring operating expenses must be included in recurring debts.

Rental or Investment Property Income Cont.

Unseasoned Rental Income:

- Lease agreements can be used to confirm rental income for a property acquired since last income tax filing year and not shown on Schedule E

To Calculate Rental Income:

- Reduce gross rental amount by 25% for vacancies and maintenance
- Subtract PITIA

Important Rental Income Reminders:

- Current lease has to support the gross rents received in prior years, for example $1,000/month lease should translate into a minimum of $12,000 in gross rents
- If there is a HELOC on the property, follow the published policy on the calculation of the monthly payment to include in the cash flow analysis
- Refer to the Conversion of Primary Residence topic for additional requirements to use rental income for a property being vacated

Note: REO properties acquired two years ago but do not reflect two years history on Schedule E may use current, fully executed leases without gaps along with tax returns to complete the two year management history.
Credit Guide- Non-Agency>Occupancy- Non-Agency>Conversion of Primary Residence-Non Agency



Rental or Investment Property Income Cont.

Seasoned Rental Income:

<table>
<tr><th>Document</th><th>Requirement</th></tr>
<tr><td>IRS Form
Schedule E</td><td>
IRS Form 1040 Schedule E is required to verify all seasoned rental income. Follow these steps to perform a cash flow analysis and calculate net income or loss:
<table>
<tr><th>Step</th><th>Action</th></tr>
<tr><td>1</td><td>Add back amortization expenses / casualty loss expenses, amortization expenses, property insurance, mortgage interest, taxes, Homeowners Association (HOA) dues, and depreciation to borrower's cash flow.
Note: HOA dues can be added back if they are included in the monthly mortgage expense.</td></tr>
<tr><td>2</td><td>Divide by number of month's property was actually leased for accurate reflection of monthly rental figure.</td></tr>
<tr><td>3</td><td>Subtract property's current monthly principal, interest, taxes, insurance, as assessments (PITIA) (as verified with current documentation*) to determine whether net result is income or expense.
<table>
<tr><th>If resulting amount is …</th><th>Then…</th></tr>
<tr><td>Positive,</td><td>• Exclude the properties PITIA from borrower's monthly obligations when calculating debt-to-income (DTI) ratio.
• Include positive amount toward income calculation.</td></tr>
<tr><td>Negative (rental income derived from investment property not sufficient to fully offset property PITIA),</td><td>• Exclude PITIA and include negative amount in borrower's monthly obligations when calculating DTI ratio.
• Include negative amount in borrower's recurring debts</td></tr>
</table>
</td></tr>
<tr><td>4</td><td>Confirm borrower still owns each property listed by comparing Schedule E with real estate owned section of Uniform Residential Loan Application.</td></tr>
</table>
*Current documentation includes but is not limited to mortgage statement, current year's tax bill or homeowner's insurance policy, or HOA documentation. For non-subject properties, current year's Schedule E with itemized taxes and insurance can be used to documents property's current monthly taxes and insurance.
</td></tr>
</table>

Refer to Mortgage Debt in Debt Analysis Guidelines – Non-Agency

Rental or Investment Property Income Cont.

Rental Property Reported through a Partnership or S-Corporation

If a borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report), and gross rents and related expenses are reported through a Partnership or S-Corporation, the business tax returns can be used to offset the PITIA.

The individual property must be analyzed outside the business tax returns following guidelines for rental properties reported on personal IRS schedule E.

Notes:

- **Any rental income evaluated outside the business cannot then be included in the remaining business income**
- **Borrower must meet all other rental income requirements in this topic, including but not limited to the two year personal rental management history requirement or additional PITIA, if applicable**
- **Borrower must meet all requirements for income received through a Partnership or S-Corporation (refer to Employment Income – Self Employed Sources – Non-Agency)**
- **Requirements for Business Debt in Borrower's Name are not applied in this specific scenario**

Borrower's business tax returns, including IRS Form 8825 for the most recent year(s), are required to complete the analysis:

Step	Action	
1	Add back the property insurance, mortgage interest, taxes, Homeowners Association (HOA) dues and amortization expenses/casualty loss expenses, amortization expenses , depreciation to the borrower's cash flow.	
2	Divide by the number of months the property was in service for accurate reflection of monthly rental figure	
3	Subtract the property's current monthly PITIA (as verified with current documentation*) to determine whether the net result is income or expense:	
	IF the net cash flow is…	THEN…
	positive,	exclude the property's PITIA from borrower's monthly obligations when calculating debt-to-income (DTI) ratio. Include positive amount toward income calculation.
	negative (rental income derived from the investment property is not sufficient to fully offset the property PITIA),	exclude the PITIA and include the calculated negative amount in the borrower's monthly obligations when calculating the DTI ratio. include negative amount in borrower's recurring debts

Analyzing Occupancy



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Conversion of Primary Residence

- **Reserve Requirements:**
  - The amount of reserves required must be manually calculated based on the requirements reflected in this topic
- **Options**
  - Existing homeowners typically have three options when deciding to purchase a new Primary residence. The current residence can be:

Options	Existing Mortgage
Sold	When the current residence is sold, generally any existing mortgage(s) are paid off
Converted to a second home	When the homeowner chooses to keep the property as a second residence, they must be able to qualify with both the existing and new mortgage payments
Converted to an investment property	When the property will be converted to an investment property, documentation must be provided to evidence this in order to use the income to offset the mortgage payment.
Note: Borrower must have two years of rental management experience or sufficient reserves, if applicable, to use rental income. **Refer to Subject Property Income Verification Requirements** and **Non-Subject Property Income Verification Requirements** in the Other Income – Non-Agency > Rental or Investment Income topic for additional income verification requirements.	

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide- Non-Agency>Occupancy- Conversion of Primary Residence – Non-Agency

Conversion of Primary Residence cont.

- **Requirements:**
  - Chase requires the following to ensure borrowers have sufficient equity and reserves to support both the existing and new mortgage obligations

WHEN current primary residence is …	THEN use …
pending sale but the sale will not close (with title transfer to a new owner) prior to closing on the new primary residence	• both the current and proposed mortgage payments (principal, interest, taxes, insurance and assessments, or PITIA) including any secured bridge financing to qualify the borrower for the new transaction, and • four additional months PITIA reserves on the subject property **Note: Reserves requirements are in addition to standard Non-Agency product reserve requirements.** **Exception:** **Underwriter can exclude current principal residence's PITIA (including any secured bridge financing) when both of these are true:** • **Borrower meets the four additional months PITIA reserve requirement for the subject property** • **Borrower provides this additional documentation:** o **Executed non-contingent sales contract for the current residence** o **Lender's commitment to the buyer of the current residence, if the executed sales contract included a financing contingency**

Conversion of Primary Residence cont.

- **Requirements:**
  - Chase requires the following to ensure borrowers have sufficient equity and reserves to support both the existing and new mortgage obligations

WHEN current primary residence is …	THEN use …
being converted to a second home and purchasing a new primary residence	• both the current and proposed mortgage payments (PITIA) to qualify the borrower for the new transaction, and • four additional months PITIA reserves on the subject property
	Note: Reserves requirements are in addition to standard Non-Agency product reserve requirements.

Conversion of Primary Residence cont.

- **Requirements:**
  - Chase requires the following to ensure borrowers have sufficient equity and reserves to support both the existing and new mortgage obligations

WHEN current primary residence is …	THEN use …
A 1-unit primary residence being converted to a 1-unit investment property and purchasing a new primary residence	• both the current and proposed mortgage payments (PITIA) to qualify the borrower for the new transaction, and • four additional months PITIA reserves on the subject property **Note: Reserves requirements are in addition to standard Non-Agency product reserve requirements.** **In addition:** • **To use rental income from the existing property to qualify, document a minimum of 25% equity in the property being converted by comparing the current unpaid principal balance of the mortgage(s) (as reflected on the credit report or other documentation in the file) to the value by using one of the following:** o **Appraised value, based on a current appraisal (form 1004, 1073, 1025, or 2055) following standard appraisal age and expiration requirements, or** o **Documented original sales price** **Chase does not allow AVMs or field reviews to document equity.** • **Use 75% of the rental income* to offset the mortgage payment when the borrower provides all of the following rental income documentation:** o **Copy of the fully executed lease agreement** o **Receipt of a security deposit from the tenant** o **Verification of the deposit into the customer's account**

Conversion of Primary Residence cont.

- **Requirements:**
  - Chase requires the following to ensure borrowers have sufficient equity and reserves to support both the existing and new mortgage obligations

<table>
<tr><th>WHEN current primary residence is …</th><th colspan="2">THEN use …</th></tr>
<tr><td rowspan="4">A 1-unit primary residence being converted to a 1-unit investment property and purchasing a new primary residence</td><td colspan="2">*To calculate rental income, reduce the gross rental amount by 25% for vacancies and maintenance, and subtract the property’s current monthly PITIA:</td></tr>
<tr><td>If resulting amount is ….</td><td>THEN apply the resulting amount to …..</td></tr>
<tr><td>positive,</td><td>monthly gross income.</td></tr>
<tr><td>negative (rental income derived from the investment property is not sufficient to fully offset the property PITIA),</td><td>recurring monthly debts.</td></tr>
<tr><td colspan="2">Do not use rental income to offset the mortgage payment if the borrower cannot document 25% equity in the property being converted.
Refer to Subject Property Income Verification Requirements and Non-Subject Property Income Verification Requirements in the Other Income – Non-Agency > Rental or Investment Income topic for additional income verification requirements.
Note: Funds being held by the borrower as a security deposit from the tenants cannot be used as a source of closing funds or reserves for the loan transaction</td></tr>
</table>

Conversion of Primary Residence cont.

- **Requirements:**
  - Chase requires the following to ensure borrowers have sufficient equity and reserves to support both the existing and new mortgage obligations

WHEN current primary residence is …	THEN use …
a 2-4 unit primary residence to an investment property and purchasing a new primary residence	• both the current and proposed mortgage payments (PITIA) to qualify the borrower for the new transaction, and • four additional months PITIA reserves on the subject property Note: Reserves requirements are in addition to standard Non-Agency product reserve requirements. In addition, to use rental income from the property being converted to qualify, document a minimum of 25% equity in the property being converted by comparing the current unpaid principal balance of the mortgage(s) (as reflected on the credit report or other documentation in the file) to the value by using one of the following: • Appraised value, based on a current appraisal (form 1004, 1073, 1025, or 2055) following standard appraisal age and expiration requirements, or • Documented original sales price Notes: • Funds being held by the borrower as a security deposit from the tenants cannot be used as a source of closing funds or reserves for the loan transaction • Chase does not allow AVMs or field reviews to document equity. • Do not use rental income from the unit previously occupied by the borrower to qualify if the borrower cannot document 25% equity in the property being converted; however, the borrower can still use rental income from the units they did not previous occupy according to the standard rental income requirements for 2- to 4-unit investment properties.

Important: In addition to the above rental income requirements for investment properties, the borrower must also meet additional income verification requirements in order to use rental income to qualify (including two-year history of managing 1- to 4-unit investment properties as verified by tax returns or additional reserves). Refer to the Subject Property Income Verification Requirements and Non-Subject Property Income Verification Requirements in the Income – Non-Agency > Rental or Investment Income – Non-Agency topic for the additional income verification requirements.

Conversion of Primary Residence cont.

- **See Example:**
  - **Loan scenario**
    - ✓ Purchase of a primary residence with a loan amount of $1,050,000
    - ✓ Interest only product on 7/1 arm with 4% rate-- P&I payment based on 20 year fully amortizing payment is $6,362.79
    - ✓ Taxes and insurance are $2,406.75
    - ✓ Total PITIA for the subject is $8,769.54
    - ✓ Borrower is converting their current SFR into an investment property with a PITIA payment of $3,500/month
  - **Reserve Calculation**
    - ✓ Base product reserve requirements are 24 months on the subject (**interest only product**)
      - o $8,769.54 x24 months= $210,468.96
    - ✓ Additional reserves for conversion is 4 months for both the current and subject properties
      - o $8,769.54 x4 months= $35,078.16 (subject)
    - ✓ Minimum Reserves Required:
      - o $210,468.96 + $35,078.16 = **$245,547.12**

Note: In this scenario, the documented equity of 30% cannot be used to reduce the amount of the reserves, 6 for each is always required. The 30% documented equity is required to consider the use of the rental income.

Conversion of Primary Residence cont.

- **Additional scenario information:**
  - **Loan scenario**
    - ✓ The borrower does NOT have a 2 year history of personally managing 1-4 unit residential properties
    - ✓ The application reflects the current residence with a value of $450,000 and current mortgage balance of $292,500
  - **What is required to consider using the rental income?**
    - ✓ Documented equity of 25% verified with a full interior/exterior appraisal dated within 120 days of the note date
      - Based on the application borrower would have 35% equity
    - ✓ Fully executed lease agreement, copy of the security deposit check and proof deposited into the borrower's account
    - ✓ Proof of rental stability with an additional 6 months PITIA reserves for the subject: $8,769.54 x6 months= $ 52,617.24
    - ✓ Reserve requirement is now $298,164.36 ($210,468.96 + $35,078.16 + $ 52,617.24)

Note: Funds being held by the borrower as a security deposit from the tenants cannot be used as a source of closing funds or reserves for the loan transaction.

Multiple Financed Properties

- **Chase permits a maximum of four 1- to 4-unit financed residential properties for Second Home and Investment transactions**
  - Each borrower individually and all borrowers collectively must not have an ownership interest in and/or be obligated on more than four 1-to-4 unit financed properties, including the subject property and the borrower(s) primary residence(s) (if applicable)
  - Requirements and limits apply when borrower has an ownership interest in the financed property and also when the borrower is obligated on the secured financing, but is not on title to the property. In addition, the financed property limits are *cumulative for all borrowers on the loan application*, in that the limits apply individually or collectively
  - A transaction is ineligible if the limit of four maximum financed properties is exceeded at the time of application through the Correspondent's funding date. Paying off secured liens on properties after the loan application date or with the proceeds of the transaction in order to meet these requirements is not permitted

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide- Non-Agency>Occupancy- Non-Agency>Multiple Financed Properties-Non-Agency

Note: There is no restriction on maximum number of financed properties for primary residence transactions.

Multiple Financed Properties cont.

- **Property ownership types that count toward the maximum limit**
  - Joint ownership of financed residential real estate
  - Obligation on a financed debt for a residential property (regardless of whether or not the borrower is an owner of the property).
  - Joint or total ownership of a property that is held in the name of a corporation or S-corporation (even if the borrower is the owner of the corporation) and the financing is in the name of the borrower.
  - Ownership of a property that is held in the name of an LLC or partnership where:
    - ✓ Borrower(s) have an individual or combined ownership in the LLC or partnership of 25% or more, and
    - ✓ Financing is in the name of the borrower or LLC/partnership
  - Ownership of a property that is held in the name of an LLC or partnership where:
    - ✓ Borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25%, and
    - ✓ Financing is in the name of the borrower
  - Ownership of a manufactured home and the land on which it is situated that is titled as real property.
  - Borrower is on title to the financed property but not obligated on the Note.

Multiple Financed Properties cont.

- **Property ownership types that <u>do not</u> count towards the maximum**
  - Ownership in a timeshare
  - Loans secured by residential lots or vacant land
  - Ownership in commercial real estate
  - Ownership of a multifamily property consisting of more than four dwelling units.
  - Joint or total ownership of a property that is held in the name of a Corporation or S-corporation (even if the borrower is the owner of the corporation) and the financing is in the name of the corporation or S-corporation.
  - Ownership of a property that is held in the name of an LLC or partnership where:
    - ✓ Borrower(s) have an individual or combined ownership in the LLC or partnership of less than 25%, and
    - ✓ Financing is in the name of the LLC or partnership
  - Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).
- Reserves
  - When a borrower owns multiple financed properties and is financing a second home or investment property, additional reserves are required. These additional reserve requirements are indicated in the Reserves section of the Non-Agency product guides.

Borrower's Intended Occupancy

- **Primary Residence (aka Principal Residence or Owner-Occupied)**

  - Borrower(s) are limited to one primary residence. A primary residence is defined as:

    - ✓ The property occupied the majority of the year by the borrower,
    - ✓ Usually located in the same general area as the borrower's income source, and
    - ✓ Typically, also the address of record used in filing Individual Income Tax Return form 1040.
    - ✓ When there are two or more borrowers, at least one borrower must be an owner-occupant and have an ownership interest in the property.

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Occupancy – Non-Agency> Borrower's Intended Occupancy – Non-Agency

Borrower's Intended Occupancy cont.

- **Primary Residence (aka Principal Residence or Owner-Occupied)**
- **Second Home (aka Vacation Home)**
  - A second home is defined as a:
    - ✓ Residence secondary to a borrower's primary residence; most commonly a vacation home, or
    - ✓ Second home in the city, used for convenience when the primary home is in a distant suburb, but the owner works in the city.
  - The residence must meet the following requirements:
    - ✓ No significant rental income or rental expenses are reported on Schedule E of the borrower's personal tax returns for the subject property - no rental income can be used to qualify the borrower.
    - ✓ The borrower must have personally resided (or intends to personally reside), in the property for some part of the year as evidenced through:
      - Mortgage interest tax deduction on the personal tax return on Schedule A for a refinance, or
      - A signed statement (for example, occupancy certification) or other documentation affirming intent from the borrower on a purchase

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides > Credit Guide – Non-Agency>Occupancy – Non-Agency> Borrower's Intended Occupancy – Non-Agency

Borrower's Intended Occupancy cont.

- **Second Home (aka Vacation Home) cont.**
  - The property cannot be leased or rented, or intended for lease or rental, other than on an occasional basis.
  - The property must not be subject to a timeshare arrangement or other arrangement that gives a management firm control over the occupancy of the property.
  - The borrower must have exclusive control over the property.
  - The property must be suitable for year round residence. Any appraisal comment to the contrary (for example, lack of year round necessities or access), shall constitute reason for unacceptable collateral.
  - Property should be in a typical second home area, otherwise satisfactorily justified by the borrowers as a second home.

Note:
- When there are two or more borrowers, at least one borrower must personally reside in the property for some part of the year and have an ownership interest in the property.
- To ensure proper pricing and product standards are applied (maximum LTV; cash out eligibility; etc.) all loan requests for second homes should be carefully reviewed to ensure the request is not for an investment property.

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Underwriting – Credit Documents

Age of Documentation:

- Verifications in the borrower's file must be current to ensure the circumstances under which the loan was approved are still valid
- Transaction approval expires as of the expiration date of the oldest credit document (unless the Underwriter designates a shorter expiration date)
- Age of documents is measured from the date of the document to the date the Note is signed
  - » When consecutive credit documents are in the loan file, use the most recent document to determine whether it meets the age requirements (for example, when two consecutive monthly bank statements are used to verify an asset, use the date of the most recent statement to calculate the expiration date)

Unless otherwise directed by the Product Guide, the following documents can be no older than 120 days from the date of the Note:

- Verification of Employment (VOE)
- Verification of Income (VOI)
- Verification of mortgage/rental
- Verification of credit
- Verification of assets
- Credit reports

If the document age exceeds the 120 days, updated documents are required

Verification of assets:

- In addition, at the time of application the asset documentation can be no more than 45 days old (or 90 days if the document is issued quarterly).

Verification of Income (VOI)

- Most recent paystub, dated no earlier than 30 days prior to initial application date and reflecting a minimum of 30 days of year-to-date (YTD) earnings
- If the document age exceeds the 120 days, updated documents are required.

Refer to Appraisals > Appraisal Age and Expiration for appraisal requirements

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides>Underwriting>Credit Documents and Appraisal Expiration

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Underwriting – Letters of Explanation

- A Letter of Explanation (LOX) may be requested from the borrower(s) for multiple reasons, including but not limited to:
  - Address Mismatch
  - "Also Known As" (AKA) Names
  - Large Deposit(s)
  - Credit Inquiries
  - Employment gaps
  - General requirement to explain issue identified by underwriting
- Letters of Explanation can be in the following formats:
  - Letter or form from the borrower detailing/clarifying explanation
  - Email from borrower detailing/clarifying explanation
    - When LOX is received by email and submitted to Chase by the Correspondent, the Correspondent is confirming that they verified the borrower's identity in accordance with *Know Your Customer Requirements*
- Signature Requirements
  - An emailed LOX does not need to be signed or dated by the borrower(s)
  - A letter or form from the borrower(s) must be signed and dated by the borrower's prior to or at closing

Note: If multiple letters or forms are required, each must be signed and dated by the borrower

Refer to Credit Guide for additional guidance in ChaseLoanManager > View Guides>Underwriting>Letters of Explanation

Differences in
Agency & Non-Agency Credit Policy
Top Conditions/Decline Reasons

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Key Differences for Chase Non Agency vs. Agency

Product:

- Minimum FICO score is 680
- Max DTI requirement of 35% or 43%, driven by score and LTV/CLTV
- Max LTV/CLTV/HCLTV- No PMI requirement
- Non-occupant borrower income is eligible for qualifying with occupant borrower max DTI of 35%/43% (or program max) and combined DTI 28%/36%
- Interest Only Arm Product available for purchase and no cash out refinances for primary and second home transactions (refer to the product guide for more requirements)
  - ❖ Qualify at the fully amortizing payment based on 20 year term
- Arm payment qualification for 5/1 arms, higher of note rate + 2% or fully indexed rate
- Reserve requirements are higher and vary by product and other transaction specific details (examples: conversion of primary residence, additional financed properties for 2nd home and investment properties, rental management history, employment contracts)
- For no cash out transactions with a HELOC being paid at close a draw history is required to confirm no draws in the last 12 months, regardless if it was used to purchase the property. If ANY draws occurred in the last 12 months the transaction is considered cash out



Key Differences for Chase Non Agency vs. Agency

Credit and Liabilities:

- Tradelines must be manually reviewed and each borrower must meet the minimum requirements
- HELOC account payments are calculated based on the status (open/closed end) as well as the seasoning of the account (open date 12 months or more)
  - Review the credit report closely for HELOC accounts with a $0 balance reported as open.
  - This applies to both subject and non-subject HELOCs
- Verification of satisfactory rental payment history and mortgage payment history for the past 12 months is required for all renters regardless of the borrower's credit score.
  - Refer to the Correspondent Lending Library Credit Guide – Non-Agency, Credit History – Non-Agency, Housing Payment History – Non-Agency

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Key Differences for Chase Non Agency vs. Agency

Assets:

- Verification of Deposit (VOD) is **not** acceptable for asset verification
- Gift funds **cannot** be used to pay off debt to qualify or to meet reserve requirements
- Borrowed funds secured (401k loan proceeds, HELOC transfers) **cannot** be used to meet reserve requirements. In addition, proof of liquidation is now required only if customer does not have 20% more than the amount needed
- Business assets: Verification the borrower is an owner on the account, amount of eligible assets corresponds to the borrower's percentage of ownership and the borrower **must** demonstrate the business account includes a **minimum** of **six months** reserves for **net operating expenses**
- Unsecured loans and lines and advances against overdraft protection is **not** an eligible source of funds for closing or reserves
- CD's used for closing require evidence of liquidation
- Marketable bonds and securities (non-retirement) refer to guidelines to determine if proof of liquidation is required.
- Stock Options **must** be exercised and only the net proceeds used for closing and reserves. **Cannot** use to meet reserve requirements unless exercised

Key Differences for Chase Non Agency vs. Agency

Employment and Income:

- Alimony/child support –**minimum** 12 months proof of consistent receipt required
- Variable income (bonus, commission, overtime, tips) require 2 years W2s, current paystubs **and** WVOE with income clearly broken out
- Part Time or Second Job- borrower must also indicate intention to continue working part-time or second job
- Seasonal employment—borrower must also indicate expectation to be rehired
- Stock options are **not** permitted as income
- Non taxable income is grossed up based on the borrower's tax rate found on the most recent filed tax return (not an automatic 1.25%)
- SSI income requires proof of most recent month's receipt **and** current SSA award letter
- To use rental income, unexpired and fully executed and enforceable leases for all properties (and all units) are required regardless of property seasoning
- If rental income is not used to qualify, the PITIA amount and recurring operating expenses must be included in the DTI calculation

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Key Differences for Chase Non Agency vs. Agency

Self Employed Income:

- Business use of home, and net operating losses **cannot** be added back to the income calculation
- Mortgages, Notes, and Bonds payable in less than one year **must** be deducted from the self-employed income by the amount of the debt, **regardless** if the business has sufficient assets to cover the debt or the debt has a history of rolling over
- Unaudited Year-to-Date Profit and Loss and Balance Sheet is required when:
  - Business is a Sole Proprietorship (Schedule C business) regardless of date of application or most recent tax filing date
  - Application is dated more than 90 days after the end of the business' year end (calendar or fiscal), regardless of the type of business, or
  - Tax returns do not provide a full 24-month history of self employment (P&L to cover any part remaining)
  - Each document expires 120 days from the Note Date
- IRS tax transcripts are acceptable as an alternative to obtaining the borrower's signature when the unsigned tax return (and schedules, if applicable) is in the file.



Key Differences for Chase Non Agency vs. Agency

Additional 1040 Considerations:

- Capital Gains and Losses- Schedule D must be analyzed to calculate the net result for each year by totaling the gains and losses for both short and long term investments:
  - if the trend consistently shows a loss, it must be deducted from the total income
  - more than two years of tax returns may be required to analyze the trend
- Non-reimbursed employee business expenses (2106) **must** be deducted from the qualifying income **regardless** of the borrower's income source
  - Also review Schedule E for UBE or UPE expenses that would also need to be deducted
- For Non-Agency Loans, IRS tax transcripts can be used as an alternative to obtaining the borrower's signed and dated tax returns.
- When business returns are required, they must also be signed and dated

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Top Credit Underwriting Conditions

For Non Agency loans, Chase Underwriters encounter missing or deficiencies in documentation related to:

- **Profit & Loss Statement and Balance Sheet**
- **Source of Funds for Large Deposits**
- **12-month Housing History**
- **Credit Inquiry LOE/Supporting Documentation**
- **K-1s / Business Returns**
- Written VOE with Variable Income (bonus, commission, OT, etc.)
- Current, Legally Enforceable Lease Agreements
- Undisclosed debt on bank statements not addressed
- Payroll loans/deductions not included in DTI

CHASE

TOP Denial Reasons

<table>
<tr><td>HELOCS (Subject and REO)</td><td colspan="2">If a HELOC can still be drawn upon (open end) and is new or unseasoned, the payment used in the DTI calculation is the higher of:
• Payment shown on credit report (or obtained from documentation from the creditor), or
• 1% of the full line amount
This includes HELOCs that are frozen (since the freeze could be lifted by the creditor).
Refer to the Debt Analysis Guidelines for the complete policy on how to calculate HELOCs based on the status and seasoning of the account.</td></tr>
<tr><td>Student Loan Payments</td><td colspan="2">• All student loans must be included in the debt ratio regardless of deferment status or number of payments remaining
• Use the following table to calculate the qualifying monthly payment for all student loans, whether deferred, in forbearance, or in repayment:</td></tr>
<tr><td></td><td>IF student loan is in...</td><td>THEN...</td></tr>
<tr><td></td><td>repayment,</td><td>greater of the following (as reported on the credit report):
▪ 0.5% of the outstanding balance, or
▪ Actual payment amount</td></tr>
<tr><td></td><td>deferment or forbearance,</td><td>greater of the following (as reported on the credit report):
▪ 1% of the outstanding balance, or
▪ Actual payment amount</td></tr>
<tr><td></td><td>forgiveness program or cancellation,</td><td>exclude the student loan payment from the monthly DTI when borrower meets requirements for loan forgiveness and the loan file contains documentation supporting:
▪ there are fewer than 10 monthly payments remaining until the full balance of the loan is forgiven or canceled, or
▪ monthly payment is deferred or is in forbearance and the full balance will be forgiven or canceled at the end of the deferment or forbearance period</td></tr>
<tr><td></td><td>employment-contingent repayment program</td><td>exclude the student loan payment from the monthly DTI when borrower meets requirements of the program and the loan file contains documentation supporting:
▪ there are fewer than 10 monthly payments remaining until the full balance of the loan is paid , or
▪ monthly payment is deferred or is in forbearance and the full balance will be paid by the program at the end of the deferment or forbearance period</td></tr>
</table>

TOP Denial Reasons

DTI	• **Self-Employed: Ineligible add backs NOL, home office** • **Self-employed: Declining income reflected on YTD P&Ls** • **Refer to guidelines based on liquid assets available in some instances, such as Refer to guidelines as based on liquid assets available in some instances, Personal debt not included in liabilities due to evidence other party pays** **2106 expenses not deducted from income** • **Seasoned REO: When rental income is earned but not used to qualify, the PITIA amount, as well as recurring operating expenses, must be included in recurring debts** • **Seasoned REO: To ensure adequate debt service is included in the DTI on Interest-Only or below-market ARM mortgage payments, the payment must include full PITIA**
Self Employed < 2 Years	Self-employed borrowers should exhibit the following stability standards: • Minimum of two years operating the same business • Provide a 24 month history of self-employment, regardless of work history • Minimum of 12 months self-employment, reflected on tax returns o If tax returns do not reflect the complete 24 month period (due to timing), then P&L and balance sheet must be provided covering the remaining period
Self Employed Mortgage, Notes Payable < 1 Year	Mortgages, Notes and Bonds payable in less than one year must be deducted from the self-employed income by the amount of the debt, regardless if the business has sufficient assets to cover the debt or the debt has a history of rolling over.
Ineligible Use of Business Assets	All requirements not met to use business assets.

CHASE

Non-Agency – Appraisal Requirements

Most Common Appraisal Conditions

#	Top 10 – Delegated
1	The appraisal report is not available for analysis in FNMA's Collateral Underwriter. Please designate JPMorgan Chase Home Lending (SVF671) as an aggregator of the appraisal data for this loan in the UCDP. Once completed please upload documentation of completion.
2	Appraisal Data was received in an incorrect format. Please upload most recent Appraisal Data to ChaseLoanManager in AI Ready XML, MISMO XML, or 1st Generation PDF using the Appraisal Data/1st Gen package type, or enter in Pre-Delivery Order Number.
3	A meaningful discrepancy exists between public record data and the appraisal reported Information.
4	The 1004D Certificate of Completion is missing.
5	Potential external obsolescence due to ____ observed in ____. Appraisal to include a similarly impacted comparable sale; or if none available, detailed comments regarding the lack of comparable sales and impact to marketability or value the external obsolescence presents.
6	Appraiser must provide appropriate comment(s) reflecting reasoning for adjustments.
7	Appraisal must reconcile the indicated values of the comparable sales and explain the weighting and rationale used to derive the final value conclusion.
8	Comparables provided appear dissimilar to subject property with regards to _____.
9	The Uniform Collateral Data Portal (UCDP) Submission Summary Report is missing for Fannie Mae and/or Freddie Mac. Please upload a legible copy of the UCDP Submission Summary Report.
10	Required Photo(s) Missing.

#	Top 10 – Non-Delegated
1	The 1004D Certificate of Completion is missing.
2	The appraisal report is not available for analysis in FNMA's Collateral Underwriter. Please designate JPMorgan Chase Home Lending (SVF671) as an aggregator of the appraisal data for this loan in the UCDP. Once completed please upload documentation of completion.
3	Appraisal Data was received in an incorrect format. Please upload most recent Appraisal Data to ChaseLoanManager in AI Ready XML, MISMO XML, or 1st Generation PDF using the Appraisal Data/1st Gen package type, or enter in Pre-Delivery Order Number.
4	The Appraisal is missing for conventional loan. Please upload most recent Appraisal.
5	A meaningful discrepancy exists between public record data and the appraisal reported Information.
6	Appraisal to address differences with comparables in regards to _____.
7	The Uniform Collateral Data Portal (UCDP) Submission Summary Report is missing for Fannie Mae and/or Freddie Mac. Please upload a legible copy of the UCDP Submission Summary Report.
8	Provide _____ additional comparable(s) [describe specific features required]
9	Sales contract is not present in file, please upload fully executed sales contract.
10	Potential external obsolescence due to ____ observed in ____. Appraisal to include a similarly impacted comparable sale; or if none available, detailed comments regarding the lack of comparable sales and impact to marketability or value the external obsolescence presents.

Note: Top 10 Non-Agency Appraisal Conditions as of August 2016.

Appraisal Loan Delivery Process

Step	Responsibility	Action
1	Correspondent	View Chase **Ineligible Appraiser List** in ChaseLoanManager Resource Center to confirm Appraiser eligibility. **Note:** Appraiser must **not** be on **Ineligible Appraiser List** as of effective date of appraisal.
2	Correspondent	Order appraisal through chosen appraisal provider ensuring all Chase requirements are met. **Note:** Refer to next slides for important **Appraisal Requirements** enclosed.
3	Correspondent	Upload appraisal data under **Appraisal Data/1st Gen** Package Type or, if FNC Pre-Delivery Service is used, enter **Appraisal Pre-Delivery Order #** on ChaseLoanManager Image Delivery **Search & Upload** screen. **Note:** Refer to next slides for important **Appraisal Requirements** enclosed.
4	Correspondent	**Delegated:** Upload Credit and Closed Package, including imaged appraisal, under **Full File** Package Type in ChaseLoanManager Image Delivery.

Appraisal Requirements

- **Appraisal Compliance:**
  - All appraisals must meet the Uniform Appraisal Data (UAD) set requirements
- **Photographs:**
  - For properties in excess of $1 million in value, descriptive photos of the interior are required
  - Comparable Sales: Clear, descriptive color photos or electronic images of the front for all comps
  - Appraiser should include photos of all pertinent fixtures and significant improvements of the interior
- **Properties with Illegal Activities**
  - For all transactions, Chase will not lend on, or permit to be used as security, any land, building, property, structure, etc. when the appraisal indicates there is knowledge of an illegal activity occurring in the past or present (based on federal or state law), regardless of whether any income or assets are being derived from the illegal activity.

Note: Property alterations cannot be made to achieve collateral eligibility.

Note: Refer to Chase Online Guide for additional guidance in ChaseLoanManager > View Guides > Appraisal/Property Requirements for complete details.

Appraisal Requirements, Cont.

- **Appraisal Update:**
  - Original appraisal indicates stable or increasing market, Appraisal Update (1004D) is acceptable
  - New appraisal is required when:
    - Appraisal update indicates value is declining
    - County is listed on Chase-defined Distressed Markets
    - Original appraisal will be 12 months old as of Note date
- **License Documentation Requirements:**
  - Screen print obtained from licensing authority website or
  - Photocopy of the license or certification

Note: As a reminder, refer to Chase Online Guide for additional guidance in ChaseLoanManager > View Guides > Appraisal/Property Requirements for complete details.

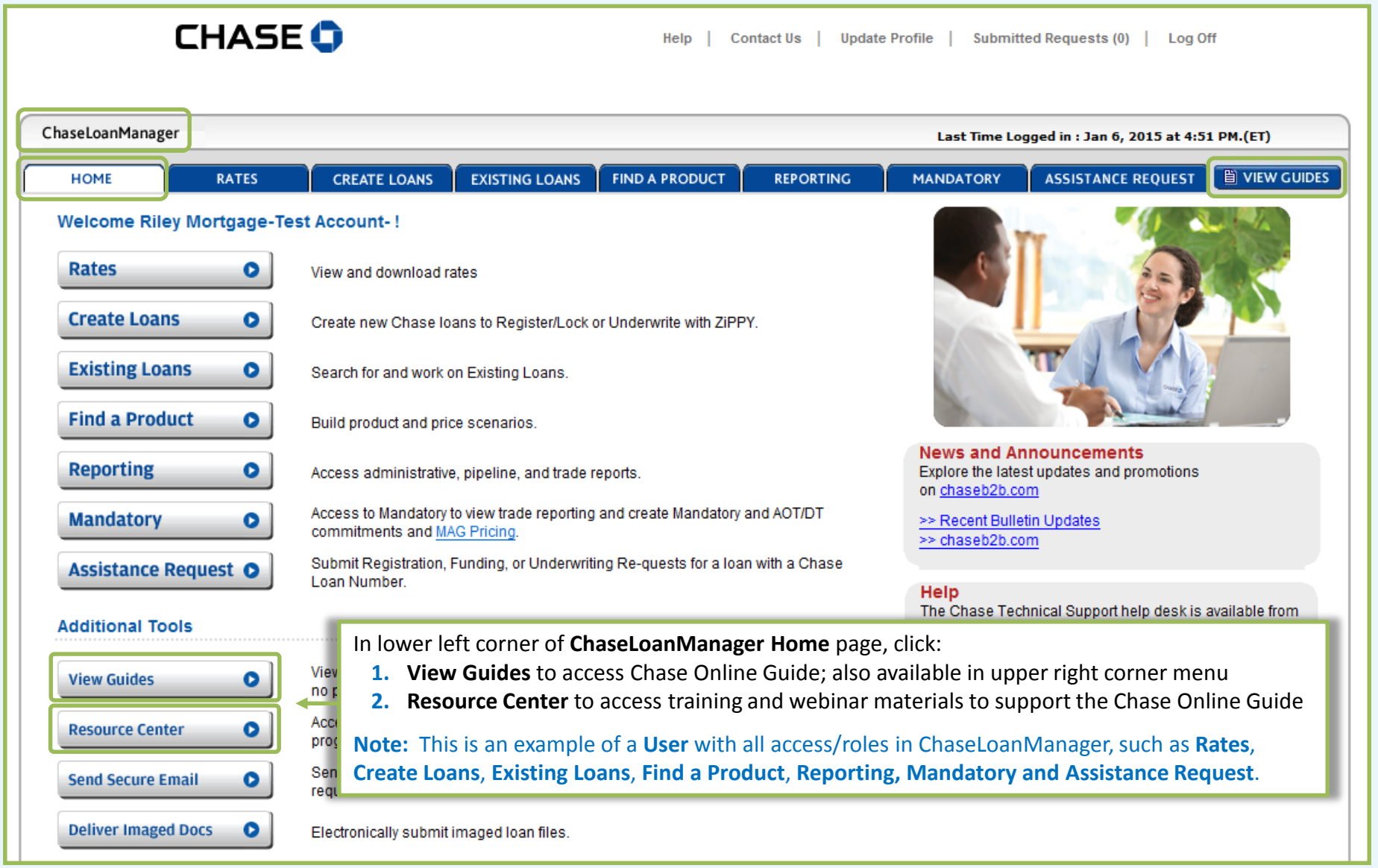
Resources & Tools –
Materials and Support

Chase Resources & Tools – Materials

For information and materials regarding…	Location…
• Non-Agency Program guidelines, requirements and navigation	**Chase Online Guide:** • ChaseLoanManager > View Guides >: ❖ Tax Transcripts ❖ Foreign Borrowers, Income, Assets, and Documentation Considerations ❖ Housing Assistance Programs ❖ Escrow Holdback/Completion Escrow Requirements ❖ Products > Non-Agency Amortizing ARMs, Fixed and Interest Only ARMs ❖ Credit Guide – Non-Agency ❖ Appraisal/Property Requirements > Appraisal Report Forms and Documentation ❖ Condominium Guide ❖ Co-op Guide ❖ Eligible Borrowers, Examiners, Foreign Borrowers ❖ Registration and Pricing ❖ Technology and Website Tools > ChaseLoanManager and Image Delivery
• Non-Agency Program training: ❖ Presentation ❖ Recording	**ChaseLoanManager:** • ChaseLoanManager > Resource Center > Topics > Products
• Correspondent Bulletins & Test Case Submissions ❖ Contact your Account Executive to be added to the distribution list for bulletins ❖ Test Case Submission email address	**Chaseb2b.com:** • http://www.chaseb2b.com/Contents/Correspondent-Lending/ContactUs/ • test.cases.correspondent@chase.com

Note: Refer to remaining slides for examples and information for above referenced Resources & Tools –Materials and Support.

ChaseLoanManager Home Page



In lower left corner of **ChaseLoanManager Home** page, click:

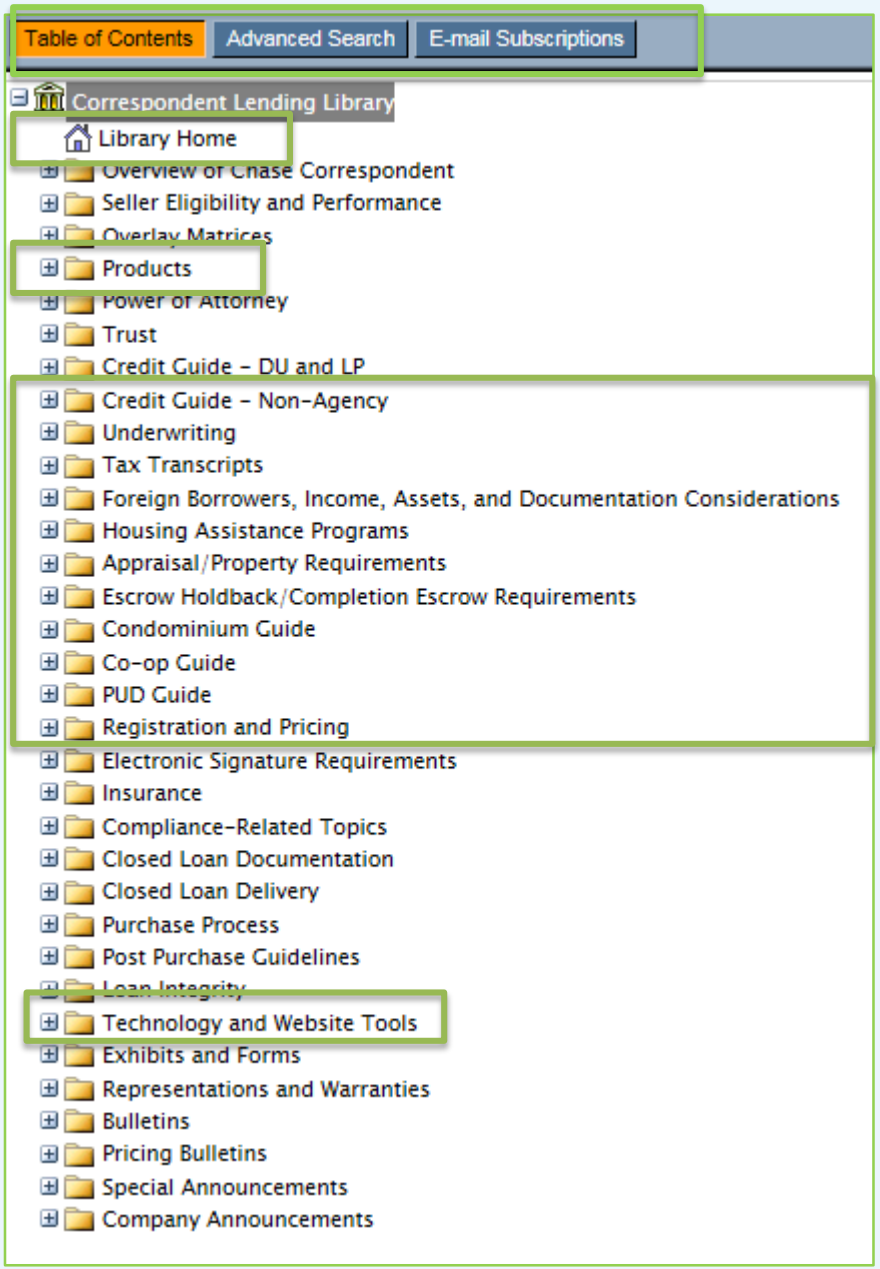
1. **View Guides** to access Chase Online Guide; also available in upper right corner menu
2. **Resource Center** to access training and webinar materials to support the Chase Online Guide

Note: This is an example of a **User** with all access/roles in ChaseLoanManager, such as **Rates**, **Create Loans**, **Existing Loans**, **Find a Product**, **Reporting, Mandatory and Assistance Request**.

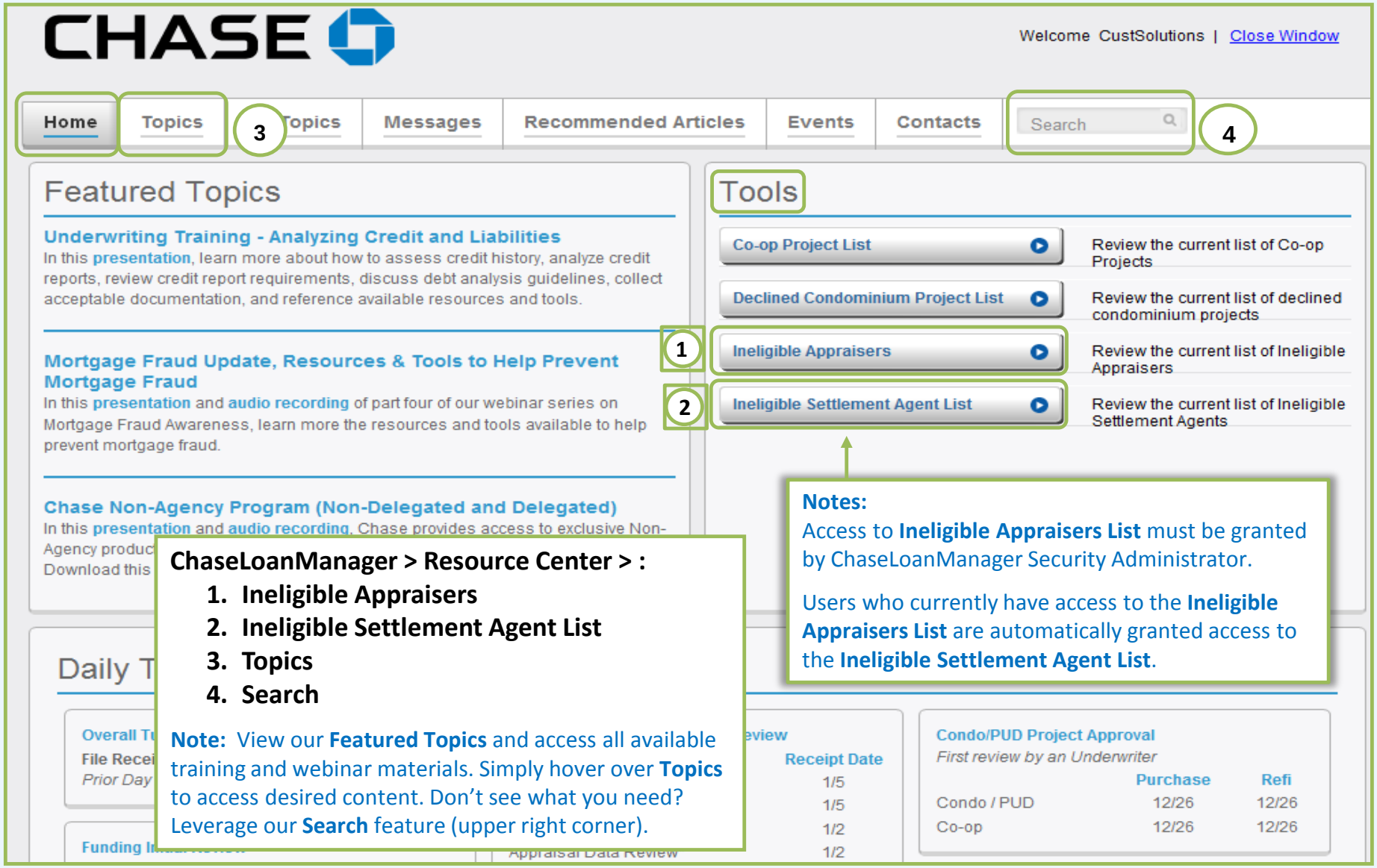
Chase Online Guide Home Page

1. **Products**
1. **Credit Guide – Non-Agency**
2. **Underwriting**
3. **Tax Transcripts**
4. **Foreign Borrowers, Income, Assets, and Documentation Considerations**
5. **Housing Assistance Programs**
6. **Appraisal/Property Requirements**
7. **Escrow Holdback/Completion Escrow Requirements**
8. **Condominium Guide**
9. **Co-op Guide**
10. **PUD Guide**
11. **Registration and Pricing**
12. **Technology and Website Tools**

Note: As a reminder, refer to our ChaseLoanManager > Resource Center to access training and webinar materials to support the Chase Online Guide.



Resource Center Home Page



ChaseLoanManager > Resource Center > :

1. **Ineligible Appraisers**
2. **Ineligible Settlement Agent List**
3. **Topics**
4. **Search**

Note: View our **Featured Topics** and access all available training and webinar materials. Simply hover over **Topics** to access desired content. Don't see what you need? Leverage our **Search** feature (upper right corner).

Notes:
Access to **Ineligible Appraisers List** must be granted by ChaseLoanManager Security Administrator.

Users who currently have access to the **Ineligible Appraisers List** are automatically granted access to the **Ineligible Settlement Agent List**.

Resources & Tools – Support

For support with questions regarding…	Contact…
ChaseLoanManager, Image Delivery or Uploading Appraisal Data to ChaseLoanManager > Image Delivery	Chase Application Support: • (877) 275-2427 (ASK-CHASE), Option 4 • correspondent.application.support@chase.com
Access and usage of optional FNC site	FNC Collateral Headquarters Support Center: • (888) 963-7892 • chaseinfo@fncinc.com
Product, Program or Project inquiries on files not yet delivered to Chase, including general appraisal requirements	Chase Customer Support: • (877) 275-2427 (ASK-CHASE), Option 7, then Option 1 • correspondent.customer.support@chase.com
Funding, Suspense and Purchase Advice status on files delivered to Chase	Operations Relationship Team: • (877) 275-2427 (ASK-CHASE), Option 7, then Option 2

3rd Party Resources & Tools

- Collateral Analytics (contract required with Vendor)
  - Verify the data on the subject property
  - Comparable sales data
  - Identify Market Trends
- Realquest (contract required with Vendor)
  - Public data
    - Transfer date of the subject property
    - Tax Information

Appendix A –
Additional Content & Examples

Project Review–
Condo & Co-op

Declined Project Lists

Condominiums Co-Ops

The Chase Declined Condominium and Co-op Project List is located…

ChaseLoanManager > Additional Tools > Resource Center

Chase support available:

FILES NOT YET DELIVERED TO CHASE - Questions regarding product, program or project Customer Support: **(877) ASK-CHASE (275-2427), Option 1** **correspondent.customer.support@chase.com** **8:30 a.m. – 7 p.m. ET Monday – Friday (excluding holidays)**
For assistance with ChaseLoanManager, contact Chase Application Support: (877) ASK-CHASE (275-2427), Option 4 correspondent.application.support@chase.com 8:30 a.m. – 7 p.m. ET Monday – Friday (excluding holidays)

NOTE: Unless the project is in the Chase Declined List, you can rep and warrant the condominium project using the Delegated Certification of Project Eligibility or the 1008.

Project Submission

Co-Ops

A step by step reference guide for Co-op Project Submissions is located…

ChaseLoanManager > Additional Tools > Resource Center

Chase support available:

FILES NOT YET DELIVERED TO CHASE - Questions regarding product, program or project Customer Support: **(877) ASK-CHASE (275-2427), Option 1** **correspondent.customer.support@chase.com** **8:30 a.m. – 7 p.m. ET Monday – Friday (excluding holidays)**
For assistance with ChaseLoanManager, contact Chase Application Support: (877) ASK-CHASE (275-2427), Option 4 correspondent.application.support@chase.com 8:30 a.m. – 7 p.m. ET Monday – Friday (excluding holidays)

Rental Income – Calculation Examples

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Rental Income- Includes Personally Obligated from 8825

- **Regardless of the method used to calculate rental or investment property income:**
  - When the total amount from all rental properties is positive, add it to the qualifying income
  - When the total amount from all rental properties is negative, add it to the recurring debts

- **Rental Income Not Used to Qualify:**
  - Include the full principal, interest, taxes, insurance and assessments (PITIA) amount **and** the monthly operating expenses in the DTI calculation

Rental Income- Includes Personally Obligated from 8825

- If the fair rental days for either year indicate the property was rented for less than a full year, a manual calculation would be required to determine the net income/loss based on the actual number of months rented. Follow the steps below:
  - **Determine the number of months the property was rented**
    - Divide the number of fair rental days by the total days for that applicable year to find the percentage
    - Multiply this percentage by 12 to determine the number of months to be used for the manual calculation
  - **Determine the new net income/loss based on the actual number of months the property was rented**
    - Divide the net income for that applicable year by the new calculated number of months

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Rental Income- Includes Personally Obligated from 8825

- **Determine which years' net income should be used**
  - Compare each year's net income based on the new calculation. If Year 2's income is less than Year 1, use the manually calculated Year 2 figure. If Year 2 is more than Year 1, average both years based on actual number of months the property was rented.
- Subtract the monthly net income figure from the fully documented PITIA to determine the net income/loss

Note: For the overall net rental income to be positive, the monthly net income has to be greater than the documented PITIA

Example:

- Net rental income calculated at $500/month and documented PITIA payment is $1500/month
- $500-$1500= net loss of $1,000/month—added as a liability

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Rental Income Calculation- Fair Rental Days

orm **8825**
Rev. December 2010)
epartment of the Treasury
iternal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

lame — Emplo

The Borrower's Rental Company --2014

1 Show the type and address of each property. For each rental real estate property listed, report the numb rental value and days with personal use. See instructions. See page 2 to list additional properties.

	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days
A	105 32nd Street Rental House-4 Units	2	365
B	6723 51st Street Rental Co-op	1	283
C	1111 Falls Drive Units 2&3	2	365

Fair Rental Days: 283

Properties Reported Through Partnership/S-Corp

Form **8825** (Rev. December 2010)
Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation
▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

Name: KAITLYN INC

2013

1 Show the type a…each property. For each rental real estate property listed, report the number of days re… and days with personal use. See instructions. See page 2 to listed additional properties.

	Physical address of each property - street, city, state, ZIP code	Type - Enter code 1-8; see page 2 for list	Fair Rental Days
A	214 HOPE STREET 3 FAMILY HOME	2	365
B	RENTAL INCOME 31 MAPLE STREET AVENU	1	365

Form **8825** (Rev December 2010)
Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation
▶ See instructions.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

OMB No. 1…

Name: KAITLYN INC.

2014

1 Show the type and a…roperty. For each rental real estate property listed, report the number of days rented at fair rent… value and days with…e instructions. See page 2 to list additional properties.

	Physical address of each property – street, city, state, ZIP code	Type – Enter code 1-8; see page 2 for list	Fair Rental Days
A	31 MAPLE STREET	2	365
B	214 HOPE STREET	2	365

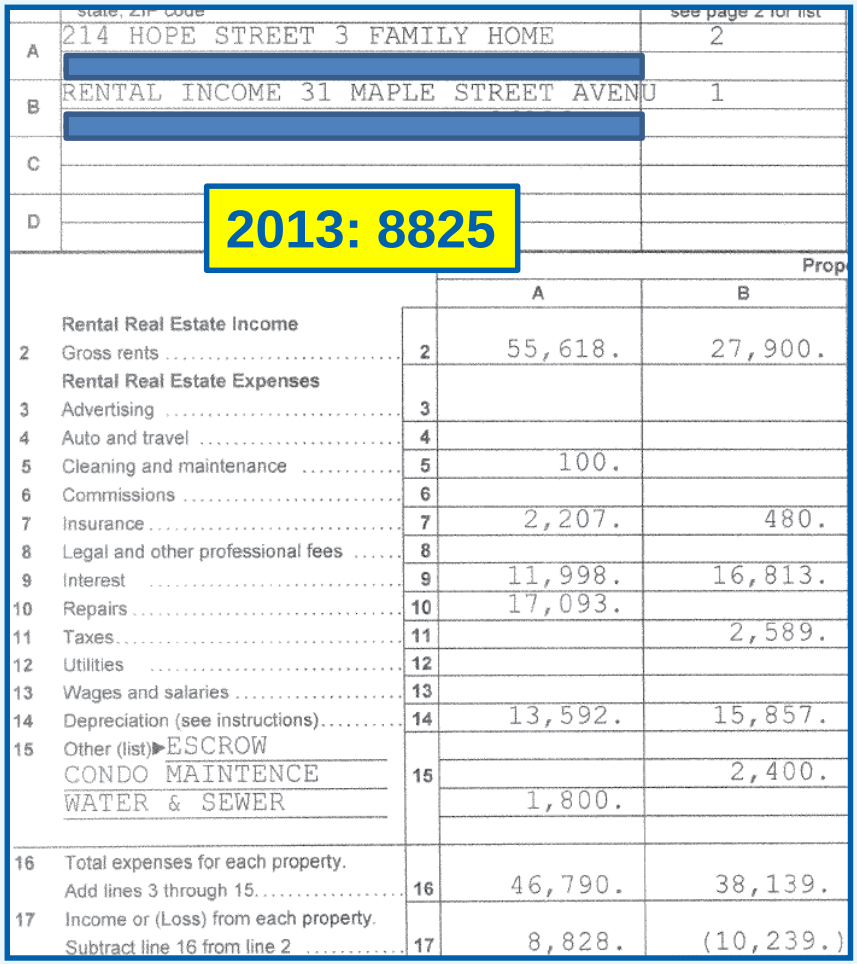
Example:

<u>214 Hope Street</u>
Borrower **IS NOT** personally obligated to the mortgage

<u>31 Maple Street</u>
Borrower **IS** personally obligated to the mortgage with a documented PITIA payment of **$2,000/month**

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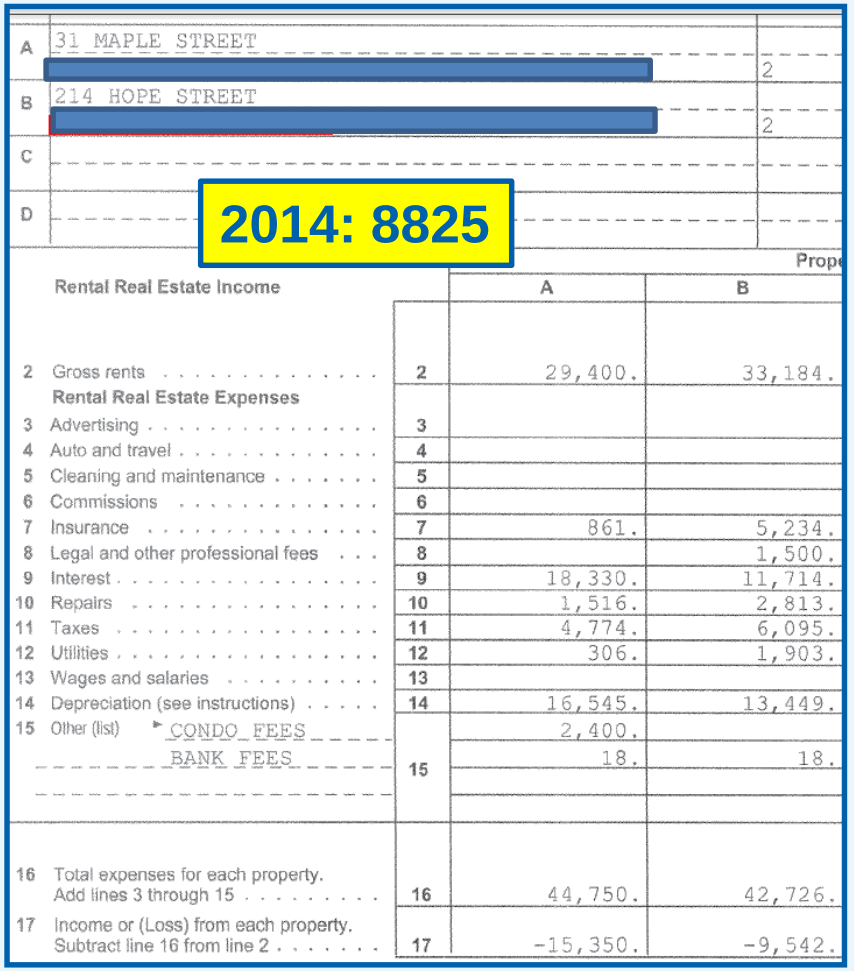
Properties Reported Through Partnership/S-Corp



A	214 HOPE STREET 3 FAMILY HOME			2
B	RENTAL INCOME 31 MAPLE STREET AVENU			1
C				
D				

2013: 8825

			A	B
	Rental Real Estate Income			
2	Gross rents	2	55,618.	27,900.
	Rental Real Estate Expenses			
3	Advertising	3		
4	Auto and travel	4		
5	Cleaning and maintenance	5	100.	
6	Commissions	6		
7	Insurance	7	2,207.	480.
8	Legal and other professional fees	8		
9	Interest	9	11,998.	16,813.
10	Repairs	10	17,093.	
11	Taxes	11		2,589.
12	Utilities	12		
13	Wages and salaries	13		
14	Depreciation (see instructions)	14	13,592.	15,857.
15	Other (list) ▶ ESCROW	15		2,400.
	CONDO MAINTENCE		1,800.	
	WATER & SEWER			
16	Total expenses for each property. Add lines 3 through 15	16	46,790.	38,139.
17	Income or (Loss) from each property. Subtract line 16 from line 2	17	8,828.	(10,239.)



A	31 MAPLE STREET		2
B	214 HOPE STREET		2
C			
D			

2014: 8825

			A	B
	Rental Real Estate Income			
2	Gross rents	2	29,400.	33,184.
	Rental Real Estate Expenses			
3	Advertising	3		
4	Auto and travel	4		
5	Cleaning and maintenance	5		
6	Commissions	6		
7	Insurance	7	861.	5,234.
8	Legal and other professional fees	8		1,500.
9	Interest	9	18,330.	11,714.
10	Repairs	10	1,516.	2,813.
11	Taxes	11	4,774.	6,095.
12	Utilities	12	306.	1,903.
13	Wages and salaries	13		
14	Depreciation (see instructions)	14	16,545.	13,449.
15	Other (list) ▶ CONDO FEES	15	2,400.	
	BANK FEES		18.	18.
16	Total expenses for each property. Add lines 3 through 15	16	44,750.	42,726.
17	Income or (Loss) from each property. Subtract line 16 from line 2	17	-15,350.	-9,542.

Rental income for **31 Maple Street** must be removed and calculated separately following the “Rental Property Reported through a Partnership or S-Corp” guidelines

Properties Reported Through Partnership/S-Corp

Follow the steps in the Rental Income Calculation and Analysis guidelines for 31 Maple Street

Step 1. Add back amortization, property insurance, mortgage interest, taxes, depreciation & total expenses for only this property

Step 2. Review fair rental days and divide by the number of months the property was leased (12 months for this property)

Step 3. Subtract the property's fully documented PITIA ($2,000.00) to determine the net result

Step 4. Calculation: 12 month average of 2014(less than 2013)= $2,296.66-$2,000 PITIA= $296.67 positive income

Step 5. Add positive rental income of $296.67

Step 6. Exclude $2,000 PITIA from the borrower's monthly obligations

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Properties Reported Through Partnership/S-Corp

To calculate the correct business income with the personally obligated property removed, review line 17 of the 8825 and include ONLY the net income/loss for the remaining property (214 Hope Street) and multiple by the borrower's % of ownership.

2013: Line 17 of 8825 214 Hope Street= $8,828 x50% ownership = $4,414

16	Total expenses for each property. Add lines 3 through 15	16	46,790.	38,139.
17	Income or (Loss) from each property. Subtract line 16 from line 2	17	8,828.	(10,239.)

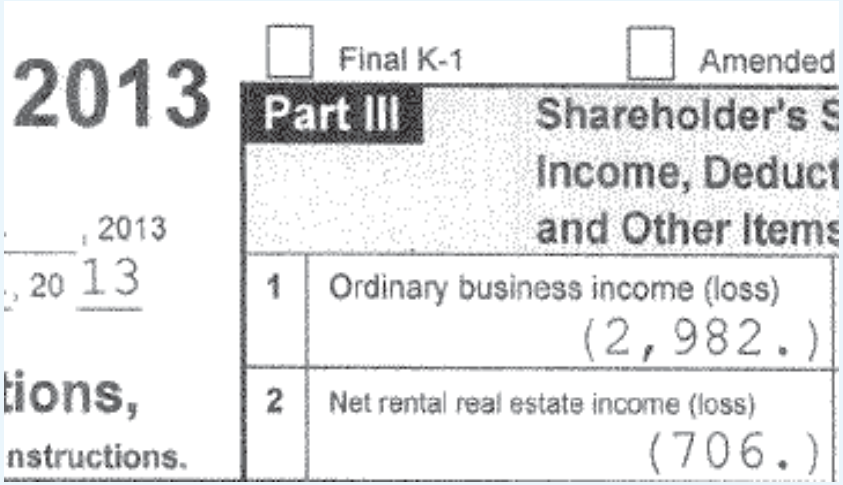
2014: Line 17 of 8825 214 Hope Street = $-9,542 x50% ownership = $-4,771

16	Total expenses for each property. Add lines 3 through 15	16	44,750.	42,726.
17	Income or (Loss) from each property. Subtract line 16 from line 2	17	-15,350.	-9,542.

On the K1, locate the borrower's percentage of ownership for each year to use for the above calculation

F Shareholder's percentage of stock ownership for tax year . . . . . 50.00000 %

Properties Reported Through Partnership/S-Corp


2013

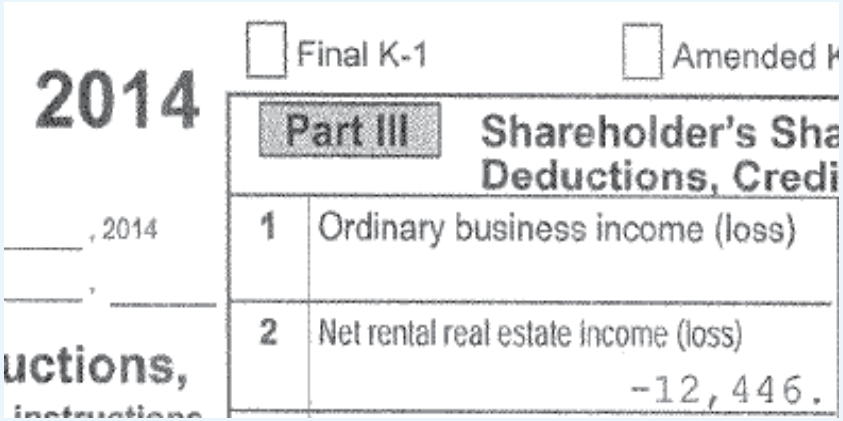
Final K-1 Amended

Part III Shareholder's S
Income, Deduct
and Other Items

1	Ordinary business income (loss)	(2,982.)
2	Net rental real estate income (loss)	(706.)

, 2013
, 20 13
tions,
nstructions.

New 2013 figure for Net rental real estate income (loss) field (Box 2)= $4414


2014

Final K-1 Amended K

Part III Shareholder's Sha
Deductions, Credi

1	Ordinary business income (loss)	
2	Net rental real estate income (loss)	-12,446.

, 2014
uctions,

New 2014 figure for Net rental real estate income (loss) field (Box 2)= $-4,771

Properties Reported Through Partnership/S-Corp

S-Corp business income calculation: (without 31 Maple)

Step 1. Enter the **new** net income figure under the K-1 section for each year and any income listed in box 1 of the K-1

Step 2. Add back amortization and/or depreciation for the remaining property only at borrower's percentage of ownership of 50%

Step 3. Compare the net results for each year. Since 2014 is less than 2013, use 2014 net result of $162.79/month as the S-Corp business income to qualify

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Profit and Loss
Balance Sheet Review & Analysis

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Year-to-Date Profit and Loss- Reminders

When required, the P&L statement must reflect the information covering the interim period from the end of the most recently obtained tax returns through the business's most recently completed financial quarter.

Any increase in income shown on the P&L Statement, when compared to the final income calculation from the tax returns, cannot be used to qualify, regardless of whether the P&L is audited or unaudited. Base the income analysis solely on the income verified through the tax returns.

If the P&L Statement reflects a decrease in income when compared to the final income calculation from the tax returns, then the income reflected on the P&L statement alone must be used to qualify.

Year-to-Date Profit and Loss- Review and Comparison

Once received, ensure the year to date income is calculated and compared to the calculated business income.

- Confirm the period the statement covers and locate the **statement date**
  - » If no statement date is listed, use the earnings period ending date as the document date
  - » Ensure the document is no more than 120 days old at the time of the note date
  - » Calculate your YTD income by dividing by the correct number of months
- Validate the **net income** figure
  - » Total Income (-) Total Expenses = Net Income
  - » This figure is used as your Net Profit/Loss when completing the monthly calculation
- Review the **income** and **expenses** detail to determine if there are any items that should be added back or deducted from the net income
  - » Examples include (but are not limited to) W-2 wages, amortization, depreciation, meals and entertainment exclusions, etc

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Year-to-Date Profit and Loss- Review and Comparison

Profit and Loss Statement

Cash Money Company, Inc.

For the January 1, 2015 ending March 31, 2015

Gross margin [L/J]	74.3%
Return on sales [T/J]	31.2%

	Prior Period	Budget	Current Period
Sales Revenue			
Sandwich Spices	22,568	20,000	25,789
Freedom Fries	31,789	25,000	30,988
Junior Juices	28,458	22,000	23,576
Cond-a-mints	6,890	3,500	4,239
Total Sales Revenue [J]	89,705	70,500	84,592
Cost of Sales			
Sandwich Spices	8,000	9,000	7,500
Freedom Fries	3,500	4,000	4,200
Junior Juices	9,000	12,000	8,500
Cond-a-mints	1,750	2,000	1,500
Total Cost of Sales [K]	22,250	27,000	21,700
Gross Profit [L=J-K]	**67,455**	**43,500**	**62,892**

The P&L should be broken down to support similar analysis that the first page of the business returns should provide. The "Sales Revenue" is shown at the top, followed by expenses for "Cost of Sales". Subtracting the "Cost of Sales" from the Sales Revenue results in the Gross Profit.

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Year-to-Date Profit and Loss- Review and Comparison

The next page reflects the operating expenses which are viewed separately from the costs of goods, as they pertain to the operation costs of the business. This will be subtracted from the "Gross Profit" to determine Total Income of the business.

Operating Expenses			
Sales and Marketing			
Advertising	500	500	500
Direct marketing	0	0	0
Other expenses (specify)	0	0	0
Other expenses (specify)	0	0	0
Total Sales and Marketing Expenses [M]	500	500	500
General and Adminstrative			
Wages and salaries	21,200	21,200	21,200
Outside services	4,000	3,000	3,000
Supplies	300	500	300
Meals and entertainment	0	0	0
Rent	4,000	4,000	4,000
Telephone	700	500	750
Utilities	2,000	2,200	1,975
Depreciation	1,200	1,200	1,200
Insurance	789	789	789
Repairs and maintenance	0	0	0
Other expenses (specify)			
Other expenses (specify)			
Total General and Adminstrative Expenses [O]	34,189	33,389	33,214
Total Operating Expenses [P=M+N+O]	34,689	33,889	33,714

Year-to-Date Profit and Loss- Review and Comparison

Insurance Consulting
Profit and Loss
January 1 through December 31, 2014

	Jan - Dec 14
Income	
Commissions	364,692
Total Income	364,692
Expense	
Commission Splits	19,291
Office Expenses	1,913
Supplies	240
Travel	11,489
Meals and Entertainment	935
Licenses and Dues	14,155
Education	2,573
Telephone	3,022
Professional Fees	4,637
Software Annual Fees	574
Software	1,077
Subscriptions	290
GTV Partner Contributions	142,600
Total Expenses	202,795
Net Income	161,897

Profit and Loss example for a Schedule C business:

*Statement is for the entire year of '14

*Gross Income: $364,692

*Total Expenses: $202,795

* Net Income: $161,897

*$161,897/12 month= $13,490.91/month

**Compare this figure to the calculated business income based on the last 2 years 1040s

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Year-to-Date Profit and Loss- Review and Comparison

Profit and Loss
January 1 through December 31, 2014

	Jan - Dec 14
Income	
Medical Records Reimbursement	1,578
Partner Contributions -	142,600
Partner Contributions -	23,235
Partner Contributions -	3,450
Credits/Misc. Paybacks	1,914
Commissions	3,724
Total Income	176,500
Expense	
Salary Staff	75,985
Service Charges	416
Computer Consulting	35,753
Employee Benefits	11,689
Equipment Rental	18,907
Insurance	1,503
Medical Reports	1,919
Miscellaneous Expenses	7,446
Postage	674
Rent	21,684
Professional Fees	1,000
Storage	559
Total Expenses	177,536
Net Income	(1,036)

Profit and Loss example for a Partnership business:

*Statement is for the entire year of '14

*Gross Income: $176,500

*Total Expenses: $177,536

* Net Income: (-) $1,036 loss

* (-) $1036/12= (-) $86.33/month

**Compare this figure to the calculated business income based on the last 2 years 1040s

Balance Sheet Overview

- A Balance Sheet is a financial statement that lists the assets, liabilities, and equity of a company at a specific point in time and is used to calculate the net worth of the business
- It is a basic principle of double-entry book-keeping to confirm that total assets (what a business owns) equals their liabilities plus equity (how the assets are financed)
- A balance sheet is an additional tool to be used in the overall analysis of the business to determine its profitability and viability
- After reviewing the Balance Sheet along with all other income documentation, the Underwriter should be able to determine if the income is supported and the overall stability of the business

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Balance Sheet Overview

Example of a Balance Sheet: the next pages break down each section needed to review and analyze

Cash Money Company, Inc. Balance Sheet		31-Mar-15	
Current ratio	2.45	Cash ratio	2.30
Quick ratio	2.33	Working capital	$23,231

Assets		Liabilities	
Current assets		**Current liabilities**	
Cash and cash equivalents	36,728	Loans payable and current portion long-term debt	10,000
Short-term investments	-	Accounts payable and accrued expenses	3,200
Accounts receivable	500	Income taxes payable	2,797
Inventories	2,000	Accrued retirement and profit-sharing contributions	-
Deferred income taxes	-		
Prepaid expenses and other current assets	-		
Total current assets	$ 39,228	**Total current liabilities**	$ 15,997
Other assets		**Other liabilities**	
Property, plant, and equipment at cost	6,500	Long-term debt	3,000
Less accumulated depreciation	(1,096)	Accrued retirement costs	-
Property, plant, and equipment (net)	-	Deferred income taxes	-
Long-term cash investments	-	Deferred credits and other liabilities	-
Equity investments	-		
Deferred income taxes	2,939		
Other assets	-		
Total other assets	$ 8,343	**Total other liabilities**	$ 3,000
Total assets	$ 47,571	**Total liabilities**	$ 18,997



Balance Sheet Overview

Assets		
Current assets		
Cash and cash equivalents		36,728
Short-term investments		-
Accounts receivable		500
Inventories		2,000
Deferred income taxes		-
Prepaid expenses and other current assets		-
Total current assets	$	39,228
Other assets		
Property, plant, and equipment at cost		6,500
Less accumulated depreciation		(1,096)
Property, plant, and equipment (net)		-
Long-term cash investments		-
Equity investments		-
Deferred income taxes		2,939
Other assets		-
Total other assets	$	8,343
Total assets	$	47,571

The top portion should list the company's assets in order of liquidity, from most liquid to least liquid. **"Total assets"** is the sum of total current assets and total long-term assets- ($47,571)

CHASE

Balance Sheet Overview

* Liabilities are classified as current or long term. Debts that are due in one year or less are classified as current liabilities (accounts payable, accrued liabilities and taxes). If they're due in more than one year, they're long-term liabilities (sum of bonds, mortgages and notes payable).
***"Total liabilities"** is the sum of total current and long-term liabilities ($18,997)

Liabilities		
Current liabilities		
Loans payable and current portion long-term debt		10,000
Accounts payable and accrued expenses		3,200
Income taxes payable		2,797
Accrued retirement and profit-sharing contributions		-
Total current liabilities	$	15,997
Other liabilities		
Long-term debt		3,000
Accrued retirement costs		-
Deferred income taxes		-
Deferred credits and other liabilities		-
Total other liabilities	$	3,000
Total liabilities	$	18,997

Balance Sheet Overview

Cash Money Company, Inc. Balance Sheet		31-Mar-15	
Current ratio	2.45	Cash ratio	2.30
Quick ratio	2.33	Working capital	$23,231

Total assets	$ 47,571	Total liabilities	$ 18,997

The **total stockholders equity** is the difference between **"Total Assets"** and **"Total Liabilities"**

Assets – Liabilities = Net Worth

$47,571 – $18,997= $28,574 positive



Q&A

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