MERCHANTS PREMIUM PROGRAM (MPP)

Underwriting Guide

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1. PROGRAM OVERVIEW AND GOVERNANCE

1.1 Purpose and Scope

This Underwriting Guide sets forth the eligibility requirements and underwriting standards for the Merchants Premium Program (MPP). The purpose of this Guide is to ensure that the borrower's credit profile, capacity to repay, and the quality of the collateral are consistent with the mortgage program under which the loan is sold to Merchants. These requirements apply to both delegated and non-delegated correspondent underwriting, unless specifically stated otherwise.

Regardless of the underwriting method, all loans must comply with applicable Ability-To-Repay/Qualified Mortgage requirements and all state and federal regulations. Merchants may require additional information to support compliance with this Guide at its discretion.

1.2 Policy Governance

If Merchants modifies this Guide, or issues any associated notices or bulletins, Merchants will notify Correspondent. Generally, modifications reflect developments in Merchants' offered loan programs and products, Investor and Insurer requirements and guidelines, or Applicable Law. Modifications are effective immediately, unless a later effective date is indicated.

1.3 Agency Guidelines

All references to "agency guidelines" mean the applicable Fannie Mae or Freddie Mac guidelines. For topics not specifically addressed in this Guide, Correspondents must follow applicable agency guidelines.

2. PRODUCT ELIGIBILITY MATRICES

The product matrices below establish maximum LTV/CLTV/HCLTV, maximum loan amount, minimum credit score, reserve requirements, and maximum DTI for each product/occupancy/property-type combination. If a topic is addressed in both a matrix and the narrative requirements below, the more restrictive requirement applies.

2.1 AUS Jumbo Elite Fixed 30/15 Matrix

Occupancy	Transaction Type	Property Type	Maximum LTV/ CLTV/HCLTV	Maximum Loan Amount	Minimum Credit Score	Minimum Reserves	Maximum DTI
Primary	Purchase/ Rate and Term	1 unit, SFR, PUD, Condo	80%	$1,000,000	680	6 mos *	45/49.99%**
			89.99%*	$1,000,000	720	12 mos	38%
			80%	$2,000,000	700	12 mos	45/49.99%**
			80%	$2,500,000	720	12 mos	45%
			80%	$3,500,000	740	18 mos	45%
Primary	Purchase/ Rate and Term	2 unit	80%	$1,000,000	700	12 mos	45/49.99%**
			75%	$1,500,000	700	12 mos	45/49.99%**
			65%	$1,750,000	700	12 mos	45/49.99%**
			60%	$2,000,000	700	12 mos	45/49.99%**
Primary	Cash-Out Refinance†	1 unit, SFR, PUD, Condo	80%	$1,000,000	680	6 mos	45%
			80%	$2,000,000	700	12 mos	45%
			70%	$2,500,000	700	12 mos	45%
Primary	Cash-Out Refinance†	2 unit	70%	$1,000,000	700	12 mos	45%
			55%	$1,500,000	700	12 mos	45%
Second Home	Purchase/ Rate and Term	1 unit, SFR, PUD, Condo	80%	$1,000,000	700	6 mos	45/49.99%**
			80%	$2,000,000	720	12 mos	45/49.99%**
			75%	$2,500,000	720	12 mos	45/49.99%**
			70%	$3,000,000	740	18 mos	45%
Second Home	Cash-Out Refinance†	1 unit, SFR, PUD, Condo	75%	$1,000,000	700	6 mos	45%
			75%	$2,000,000	700	12 mos	45%

*The following requirements apply for transactions with >80% LTV:

- >80% LTV is permitted on 30-year fixed loans only.
- Mortgage insurance is not required.
- Subordinate financing is not permitted.

**DTI from 45.00% to 49.99% requires a minimum 720 credit score, a maximum 80% LTV, and a loan amount not exceeding $2,000,000 on purchase and rate/term refinance transactions only.

The minimum Jumbo Elite loan amount is the greater of the baseline conforming loan limit or the applicable high-cost county/MSA loan limit, plus $1.

†Maximum Cash-out is $500,000.

2.2 High Balance Elite Fixed 30/15 Matrix

Occupancy	Transaction Type	Property Type	Maximum LTV/ CLTV/HCLTV	Maximum Loan Limit***	Minimum Credit Score	Minimum Reserves	Maximum DTI
Primary	Purchase/ Rate and Term	1 unit	80%	$1,000,000	680	6 mos *	45/49.99%**
		1 unit	89.99%*	$1,000,000	720	12 mos	38%
		1 unit	80%	$1,249,125	700	12 mos	45/49.99%**
		2 unit	80%	$1,000,000	700	12 mos	45/49.99%**
		2 unit	75%	$1,599,375	700	12 mos	45/49.99%**
Primary	Cash-Out Refinance†	1 unit	80%	$1,000,000	680	6 mos	45%
		1 unit	80%	$1,249,125	700	12 mos	45%
		2 unit	70%	$1,000,000	700	12 mos	45%
		2 unit	55%	$1,599,375	700	12 mos	45%
Second Home	Purchase/ Rate and Term	1 unit	80%	$1,000,000	700	9 mos	45/49.99%**
		1 unit	80%	$1,249,125	720	12 mos	45/49.99%**
	Cash-Out Refinance†	1 unit	75%	$1,000,000	700	12 mos	45%
		1 unit	70%	$1,249,125	700	12 mos	45%

*The following requirements apply for transactions with >80% LTV:

- >80% LTV is permitted on 30-year fixed loans only.
- Mortgage insurance is not required.
- Subordinate financing is not permitted.

**DTI from 45.00% to 49.99% requires a minimum 720 credit score, a maximum 80% LTV, and a purchase or rate/term refinance loan amount not exceeding $1,599,375.

***The following requirement apply to minimum/maximum loan amounts:

- Minimum loan amount is the baseline conforming loan limit plus $1
- Loan amount may not exceed the applicable high-cost county/MSA loan limit or the maximum loan amount in the matrix, whichever is lower.

†Maximum Cash-out is $500,000.

2.3 Conforming Elite Fixed 30/15 Matrix

Occupancy	Transaction Type	Property Type	Maximum LTV/ CLTV/HCLTV	Conforming Balance Maximum***	Minimum Credit Score	Minimum Reserves	Maximum DTI
Primary	Purchase/ Rate and Term	1 unit	80%	$845,000	680	6 mos *	45/49.99%**
		1 unit	89.99%*	$845,000	720	12 mos	38%
		2 unit	80%	$1,081,950	700	12 mos	45/49.99%**
Primary	Cash-Out Refinance†	1 unit	75%	$845,000	680	6 mos	45%
		2 unit	70%	$1,081,950	700	12 mos	45%
Second Home	Purchase/ Rate and Term	1 unit	80%	$845,000	700	9 mos	45/49.99%**
	Cash-Out Refinance†	1 unit	75%	$845,000	700	12 mos	45%

*The following requirements apply for transactions with >80% LTV:

- >80% LTV is permitted on 30-year fixed loans only.
- Mortgage insurance is not required.
- Subordinate financing is not permitted.

**DTI from 45.00% to 49.99% requires a minimum 720 credit score, a maximum 80% LTV, and a purchase or rate/term refinance loan amount not exceeding $1,081,950.

***The following requirement apply to minimum/maximum loan amounts:

- Minimum loan amount is $500,000.
- Loan amount may not exceed the baseline FHFA conforming loan limit or the maximum loan amount in the matrix, whichever is lower.

†Maximum Cash-out is $500,000.

3. AUTOMATED UNDERWRITING SYSTEM (AUS) REQUIREMENTS

3.1 Desktop Underwriter (DU) and Loan Product Advisor (LPA)

Merchants permits both DU and LPA for delegated correspondent loans. Non-delegated correspondent loans must be underwritten and submitted through DU only.

The loan file should contain only the AUS findings that correspond to the final transmittal summary (1008) and the final signed URLA. Submission of incorrect, stale, or multiple AUS findings may result in inaccurate reviews and additional pre-purchase conditions.

The applicable agency guidelines used for pre-purchase due diligence reviews will be determined based on the AUS identified in the loan file (DU or LPA).

3.2 Additional AUS Requirements

- The AUS provider must match the AUS identified on the final transmittal summary (1008).
- Risk assessment information must be completed on the final transmittal summary (1008).
- The credit report reference number must match the AUS submission.
- High Balance and Conforming Elite loans must receive an Approve/Eligible or Accept/Eligible recommendation, as applicable.
- Jumbo Elite Fixed loans must receive an Approve or Accept recommendation with an Ineligible result for loan amount only.
- For non-delegated loans, AUS findings must be finalized to “Merchants Bank of Indiana” before underwriting submission.
- Delegated Correspondent underwriters are strongly encouraged to include comprehensive, transaction-specific notes on the transmittal summary (1008).
- Non-delegated Correspondents are strongly encouraged to use the loan submission form to provide underwriter notes and to submit complete files whenever possible.

4. TRANSACTION REQUIREMENTS

4.1 Loan Purpose

Eligible loan purposes:

- Purchase
- Limited cash-out refinance / No cash-out refinance
- Cash-out refinance

4.2 Loan Terms

Eligible terms:

- 30-year fixed
- 15-year fixed

4.3 Occupancy

- Primary residence and second homes only.
- The borrower must occupy the subject property within 60 calendar days of consummation.
- A seller's leaseback may not exceed 60 calendar days from the note date and must be clearly stated in the purchase contract. Builder leasebacks for model homes are not permitted.
- A second home must be suitable for year-round occupancy and must be a one-unit property.
- Investment properties are not permitted.

4.4 Temporary Buydowns

Temporary buydowns are not permitted.

4.5 Seasoning Requirements

A seasoned loan is any loan delivered 20 days or more after the closing date. Seasoned loans are not eligible for purchase by Merchants without prior approval from Merchants. If approved, the Lock Desk will determine the final pricing.

4.6 Ability to Repay (ATR)/Qualified Mortgage (QM)

- All loans must satisfy the Price-Based QM Safe Harbor/APOR standard. Safe Harbor means the APR is less than 1.50% above the applicable APOR.
- Correspondent is responsible for documenting compliance with ATR/QM requirements.
- The loan file must document the eight Ability-to-Repay factors under Regulation Z (12 CFR 1026.43(c)(2)).

4.7 Purchase Transactions

Cash back to the borrower is not permitted except for reimbursement of documented overpayment of fees, reimbursement of costs paid in advance by the borrower (for example, earnest money or appraisal fees), or legitimate prorated real estate taxes in jurisdictions where taxes are paid in arrears.

4.8 Refinance Transactions

- For cash-out refinance transactions, total cash-out may not exceed $500,000, including payoff of non-mortgage debt through the transaction.
- For rate/term refinance transactions, cash back to the borrower is limited to 1% of the new loan amount.
- A renovation loan (for example, PACE or HERO) must be seasoned for at least 12 months from consummation to be treated as a rate/term refinance.

4.9 Continuity of Obligation

When an existing mortgage is being satisfied through a refinance, the file must document at least one of the following:

- At least one borrower on the new loan was obligated on the mortgage being refinanced.
- At least one borrower on the new loan held title to and occupied the property as a primary residence for the previous 12 months, and the file contains 12 months of documentation showing timely mortgage payments, including any secondary financing.
- The borrower inherited the property or was awarded the property through divorce, separation, or dissolution of a domestic relationship.
- The borrower was added to title at least 24 months before disbursement of the new refinance loan.
- The borrower was added to title through a transfer from a trust, LLC, or partnership, provided the borrower was the trust beneficiary/creator or at least a 25% owner of the LLC/partnership before the transfer and has at least six consecutive months of ownership. Transfers from corporations are not eligible.

4.10 Secondary Financing

- Private financing, including seller-funded financing, is not permitted.
- Employer-assisted financing is not permitted.
- Maximum HCLTV is 80%.

4.11 Fraud Report

Each loan must include a fraud report covering all applicable parties. Correspondent is responsible for clearing all alerts, red flags, and warnings. Each cleared item must be supported by an explanation and/or documentation demonstrating the basis for clearance.

At a minimum, the fraud report must include the following parties:

- All borrowers (including any non-purchasing spouse on title)
- Sellers
- Real estate agents
- Attorneys
- Loan originator
- Processor
- Closer
- Underwriter

- Correspondent company
- Appraiser and appraisal company
- CDA/CCA and/or field review appraiser and appraisal company, if applicable
- Title company and title agent

4.12 Property Insurance

- A renewal policy is required if the hazard or flood insurance policy expires within 60 calendar days after closing.
    -
- Follow agency guidelines on coverage amounts. Ensure hazard policy is in force at or prior to loan consummation
- Flood insurance requirements should include compliance with the HFIAA including the escrow requirement
- Acceptable evidence of insurance is a declarations page or policy.

4.13 Title Insurance Requirements

- Title insurance coverage must be at least equal to the principal amount of the mortgage.
- Title coverage must include an environmental protection lien endorsement, ALTA 8.1-06, or the applicable state equivalent.
- Additional endorsements may be required based on property type. Correspondent is responsible for ensuring the file contains all required endorsements.
- The title policy may not contain unacceptable title impediments, including unpaid real estate taxes or survey exceptions. If surveys are not commonly required in the jurisdiction, an ALTA 9 endorsement must be provided.
- The preliminary title policy and closing protection letter must be dated no more than 90 days before the note date.

4.14 Ineligible Transactions

- Texas 50(a)(6) and Texas 50(f)(2) refinance transactions
- Properties in the state of New York
- Properties located outside the United States and U.S. territories, including Guam, Puerto Rico, the Virgin Islands, American Samoa, and the Mariana Islands
- Purchases during a redemption period
- High-Cost Loans, Higher Priced Mortgage Loans (HPML), and Higher Priced Covered Transactions (HPCT)
- Bridge financing or departure-residence buyouts provided by third parties, such as Knock, HomeLight, Prefund, or Opendoor
- Land contracts / contracts for deed
- Assignment of a sales contract
- A refinance on a property listed for sale at the time of application
- Loans with more than four borrowers
- Land trust, blind trust, and community land trust structures

5. BORROWER ELIGIBILITY

5.1 Eligible Borrowers

- U.S. citizens
- Permanent residents
- Borrowers with a valid Social Security number
- Inter vivos revocable trusts, subject to the trust requirements in this Guide
- Non-occupant co-borrowers

5.2 Ineligible Borrowers

- Borrowers involved in litigation or who are party to a lawsuit
- Non-permanent residents
- Foreign nationals
- Borrowers with diplomatic status/diplomatic immunity
- Asylum
- DACA borrowers
- ITIN borrowers
- Land trusts
- LLCs, corporations, or partnerships
- Life estates
- Non-revocable trusts
- Guardianships
- Any borrower with ownership in, or employment by, a business that is illegal under federal law, regardless of whether income from that business was used to qualify

5.3 Power of Attorney

- Power of attorney may not be used on the initial application or the final application.
- Only a specific power of attorney is permitted; a general power of attorney is not acceptable.
- If recording is required by state law, the power of attorney must be recorded with the security instrument.
- Power of attorney is not permitted on a cash-out refinance.
- Any person employed by or affiliated with a party to the transaction may not serve as attorney-in-fact.
- The power of attorney must be notarized and, unless applicable law requires otherwise, must reference the subject property address.
- The power of attorney must be valid at the time the affected loan documents are executed.

5.4 Inter Vivos Revocable Trust (Living Trust)

Inter vivos revocable trusts are permitted on 1-2-unit primary residences and 1-unit second homes. Title insurance must provide full coverage without exceptions for the trust or trustees for the trust in that state. One of the following is required:

i. A complete copy of the trust agreement. The trust agreement must state the following:
   - The trustee is authorized to borrow funds for the purchase or refinance of real property
   - The beneficiary is not required to grant written consent for the trust to borrow funds; if consent is required, consent must be granted in writing for purposes of the mortgage
   - There is no unusual risk or impairment to the lender's rights
   - Holding title in the trust does not diminish the lender's rights as a creditor

ii. An attorney's opinion letter confirming the trust meets all Secondary Marketing requirements as set forth by agency guidelines, as applicable, and any State requirements. Letter should be current and transaction specific.

iii. Certification from title company evidencing compliance with all Secondary Marketing requirements as set forth by agency guidelines, as applicable, and any State requirements

iv. Certification from an individual trustee evidencing compliance with all Secondary Marketing requirements as set forth by agency guidelines, as applicable, and any State requirements; certification must be notarized

Trust certifications must confirm the following information:

- The existence and date of the trust
- The settlors and the current trustees
- The powers of the trustees
- Whether the trust is revocable and, if so, who holds the right to revoke it
- The names and number of the trustees required to sign on behalf of the trust
- The trust identification number and whether the identification number is a Social Security number or an IRS-issued tax identification number
- How title to the trust assets must be vested

5.5 Ownership Interest

- Fee simple ownership only.
- Continuity of Obligation must be followed
- If title is currently vested in an LLC, the property must be deeded into the borrower's individual name prior to loan application & title must be in borrowers' name

5.6 First-Time Homebuyer

- Maximum loan amount is $2,000,000.
- Only a 1-unit primary residence is eligible.
- Minimum credit score is 740 for LTV of 80.01% to 89.99%.
- Maximum DTI is 40%.
- Gift funds are permitted; however, must invest 5% of their own funds.
- Minimum 12 months of reserves.
- A 12-month rental history with no late payments.

5.7 Non-Borrowing Spouse

- If a non-borrowing spouse or domestic partner has an interest in the subject property, all applicable state law requirements must be satisfied to waive any property rights arising solely from the marital or domestic relationship.

5.8 Non-Occupant Co-Borrower

- Maximum LTV/CLTV of 80%
- Maximum DTI is 45%

6. CREDIT AND LIABILITIES

6.1 Credit Report

- A tri-merge credit report is required.
- All borrowers must have a valid Social Security number; TINs are not eligible.
- Fraud alert messages on the credit report must be satisfactorily addressed.
- Each borrower must have a minimum of two valid credit scores.
- A credit score identified as “frozen” is required to be unfrozen.
- Each borrower’s credit score must be derived from a minimum of three traditional tradelines with at least a 12-month history. Tradelines may be open or closed.
- Authorized user accounts may not be used unless documentation shows the borrower made the payments for the most recent 12 months. Tradelines without actual payment history, such as certain student loans, do not count toward the tradeline requirement.
- All mortgage liabilities must be current through the month prior to loan closing.

6.2 Unacceptable Credit

- Unresolved regulatory flags
- Foreign credit reports
- Non-traditional credit
- Insufficient credit (thin file), defined as fewer than three active tradelines with at least a 12-month history

6.3 Housing / Mortgage / Rental History

For non-first-time homebuyers:

- The file must document a combined 12-month housing payment history, which may consist of mortgage and/or rental payments.
- If the 12-month housing payment history does not directly precede the application, a rent-free letter from the housing provider must state no housing expense and provide the dates of residency and property address.
- For a privately financed mortgage, provide a copy of the recorded note and 12 months of cancelled checks, bank statements, or online transaction history.
- Verification of rent and/or mortgage must be documented with a VOR, VOM, or credit report.
- A verification of rent from a private landlord must be supported by 12 months of cancelled checks, bank statements, or online transaction history.
- If at least one borrower has owned a home in the last three years, first-time homebuyer requirements do not apply.
- For properties owned free and clear, evidence must be provided proving that real estate taxes, homeowners' insurance, and association dues are paid and current. Documentation must verify that the properties are owned free and clear; a homeowner policy is not acceptable evidence.

For first-time homebuyers:

- A 12-month rental history within three years of the application date is required.
- Verification of rent must be documented with a VOR for all borrowers, if applicable.
- A verification of rent from a private landlord must be supported by 12 months of cancelled checks, bank statements, or online transaction history.
- If the 12-month housing payment history does not directly precede the application, a rent-free letter from the housing provider must state no housing expense and must provide the address and dates of residency.
- Any rent-free period must be consecutive and may not exceed 12 months.

6.4 Derogatory Credit

- Any mortgage or rental history provided with late payments in the most recent 24 months is ineligible for purchase.
- Bankruptcy (Chapter 7, 11, or 13): seven-year waiting period from discharge or dismissal.
- Foreclosure: seven-year waiting period from the completion date reported on the credit report or other foreclosure documentation.
- Multiple credit events are not permitted.
- Deed-in-lieu, short sale, pre-foreclosure sale, and charge-off of a mortgage account: seven-year waiting period from completion as shown in the credit report or other documentation.
- Late payments unrelated to a mortgage within the most recent 12 months require a signed letter of explanation from the borrower.
- For additional credit guidance, follow applicable agency guidelines and AUS findings.

6.5 Past-Due Accounts and Judgments

- Any past-due account must be brought current and supported by a signed letter of explanation from the borrower.
- Any judgment, including medical judgments, appearing on credit, title, or the fraud report must be paid in full.
- Collections and charge-offs may follow applicable agency guidelines and AUS findings.

6.6 Debt Monitoring

A credit refresh, undisclosed debt monitoring report, or gap report dated no more than 10 days before the note date is required. At a minimum, the report must identify new inquiries and new debt and must clearly show the review start and end dates. If new information is identified, the file must be returned to the underwriter for review and re-approval, if applicable.

6.7 Liabilities Requirements

Follow applicable agency guidelines and AUS findings for liability requirements.

6.8 Open 30-Day Accounts

- For any open 30-day account (for example, American Express), a current statement must be provided to confirm that the balance is due in full each month and does not have a portion due monthly.
- Any revolving portion of the balance must be included as debt in the DTI calculation.
- Assets sufficient to pay the full amount due must be documented in addition to funds to close and required reserves.
- A default 5% payment calculation may not be used.

6.9 Credit Re-score

A rapid credit re-score is permitted. If a credit re-score is used, the file must contain the original credit report, the updated credit report, and a letter of explanation documenting the reason for the re-score.

6.10 Mortgage Verification

- For every property with a mortgage lien (including open HELOCs, with or without a balance), provide a current VOM or mortgage statement showing the property address and escrow information.
- If escrows are not included, provide evidence of annual real estate taxes, homeowners insurance, and homeowners association dues, if applicable.

6.11 Consumer Credit Counseling

Debt enrolled in consumer credit counseling is not permitted and renders the loan ineligible for purchase.

6.12 Real Estate Owned

If a borrower has split ownership in a property, include the full PITIA in liabilities. Rental income, if any, must be based on Schedule E. If a borrower is on title only, real estate property taxes, homeowners' insurance, and homeowners' association dues, if applicable, must be included.

7. ASSETS

7.1 General Asset Requirements

- Eligible assets must be held in a U.S.-based account.
- Any single deposit greater than or equal to 50% of the borrower's qualifying monthly income must be fully sourced and documented.
- If a large deposit cannot be documented, a letter of explanation from the borrower is required, and the amount must be excluded from available assets.
- Agency-approved asset reports, such as Blend or Finicity, are acceptable.
- Asset statements must be dated within 45 days of the initial loan application. Quarterly statements must be the most recent statement available as of the application date.
- Online asset statements must show the URL, identify the source, and align with the prior statement.
- Retirement assets must be vested and must permit a loan or withdrawal without requiring termination of employment.
- If assets are held in a trust, the borrower must have full access to the funds and must be the beneficial owner of those funds.
- NSF/Overdraft activity must be explained by the borrower, and no more than two occurrences may appear on a monthly statement.

7.2 Reserve Requirements

- Refer to the product matrix for subject property reserve requirements for AUS Jumbo Elite, Conforming Elite, and High Balance programs.
- Additional reserves are required for first-time homebuyers and for borrowers with multiple-financed properties. See Multiple Financed Property and First-Time Homebuyer sections for more details.
- For LTV's of 85%-89.99 3 months the total required reserves must be liquid assets.

7.3 Gift Funds

- Gift funds may be used for down payment and closing costs, provided the borrower contributes at least 5% from the borrower's own funds. The borrower's contribution must be in a liquid account.
- The donor must be an individual; a business or trust may not be a donor.
- Documentation must satisfy applicable agency guidelines on acceptable donors, documentation, verifying donor's availability for funds, and transferring of funds.
- When gift funds are transferred to the closing agent/title company, Correspondent must document the transfer from the donor in the form of wire/electronic transfer, certified check, cashier's check, or other official check. The documentation must clearly identify the donor as the source, reflect the donor's account, and match the gift letter amount.

7.4 Business Assets

- The borrower must own at least 25% of the business if using business assets to close.
- Usable funds are limited to the borrower's ownership percentage, up to a maximum of 50% of the account balance.
- Other owners must confirm that the funds may be withdrawn for personal use and are not required to be repaid.
- Business bank statements may not show NSF/overdraft activity. If the account has overdraft protection linked to another account, this would not be included as an occurrence.
- Use of business assets is limited to the lower of 80% LTV/CLTV/HCLTV or the program maximum.
- When using business assets, a cash-flow analysis using the most recent three months of business bank statements must reflect no negative impact on the business.
- Business assets can only be used for reserves if the borrower is 100% owner.

7.5 Multiple Financed Properties

Any open first-lien HELOC (with or without a balance) must be included in the total financed property count. If eligible per agency guidelines to be excluded from reserve count for multiple-financed properties per agency, additional reserves are not required.

When the subject transaction is a **primary residence**, the borrower may own an unlimited number of financed 1 – 4-unit residential properties, subject to the following requirements:

- If the borrower owns up to four financed properties:
  - Maximum financing is permitted
  - Each additional financed 1 – 4-unit residential property requires three months of PITIA reserves
- If the borrower owns five to ten financed properties:
  - The subject transaction is limited to the lower of 80% LTV/CLTV/HCLTV or the program maximum
  - Each additional financed 1 – 4-unit residential property requires six months of PITIA reserves

When the subject transaction is a **second home**, the borrower may own a total of 10 financed 1–4-unit residential properties including the subject property, subject to the following requirements:

- If the borrower owns up to four financed properties:
  - Maximum financing is permitted
  - Each additional financed 1 – 4-unit residential property requires three months of PITIA reserves
- If the borrower owns five to ten financed properties:
  - The subject transaction is limited to the lower of 80% LTV/CLTV/HCLTV or the program maximum
  - Each additional financed 1 – 4-unit residential property requires six months of PITIA reserves

7.6 Excluded Properties

The following may be excluded from financed property count:

- One- to four-unit properties titled in an LLC or corporation, provided the borrower is not personally obligated on the mortgage.
- Vacant land and commercial or multifamily properties with five or more units.

7.7 Ineligible Assets for Closing/Down Payment/Reserves

- Anticipated savings
- Cash on hand
- Proceeds from a cash-out refinance of the subject property
- 529 funds
- Community savings plans
- Cryptocurrency
- Custodial accounts
- Non-vested funds
- Funds unavailable except at retirement/termination/death
- Foreign assets
- Gift of equity
- Non-vested restricted stock/stock options
- Pledged assets
- Rent-back credit
- Sweat/trade equity
- Unsecured financing
- Gift funds may not be used for reserves
- Secured funds from a bridge loan or an existing HELOC may not be used for reserves

8. INCOME AND EMPLOYMENT

8.1 History and Stability of Income

Income used to qualify must be stable, reliable, and reasonably expected to continue for at least three years from closing. The application should reflect a two-year employment history. If a borrower has less than a two-year history, the underwriter must document why the income is acceptable and confirm the stability of that income.

The loan file must contain a written income analysis for each income source. Acceptable calculation tools include a wage-earner worksheet, cash-flow analysis with liquidity test, rental income worksheet, RSU worksheet, Freddie Mac asset depletion worksheet, and other analysis as documented by the underwriter on the transmittal summary (1008).

8.2 General Employment Documentation Requirements

- Income validation services, including Day 1 Certainty and Asset and Income Modeler (AIM), are not permitted. The underwriter must manually evaluate and calculate income.
- Borrowers must be employed by a U.S.-based employer for at least two years; U.S.-based education may be included in that history.
- Paystubs must be dated no earlier than 30 days before the initial application date if required.
- If the written verification is not obtained through a validation service such as The Work Number, also provide the most recent paystub and prior-year W-2.
- If a borrower had a job gap of six months or more, the borrower must be in the current job for at least 30 days, provide a letter of explanation, and document a prior two-year history.
- When required, personal and business tax returns must be complete and include all schedules. W-2s and 1099s must be provided when applicable. Business returns must always be signed by the borrower.
- A verbal verification of employment must be completed within 10 business days of the note date. Agency alternative methods are acceptable too.
- For self-employed borrowers, business existence must be verified through an acceptable third-party source no more than 30 calendar days before the note date. A borrower's own website is not an acceptable third-party source.

8.3 Declining Income

- If income has declined, the file must contain documentation explaining the decline and supporting the fact that the current income has stabilized. Under no circumstances may the higher income be used to qualify the borrower.
- The file must contain justification for using declining income.

8.4 Income Sources Requirements

Follow agency guidelines and AUS findings for income sources except where specifically addressed in this Guide.

8.5 Special Income Types

Employed by Family

In addition to agency guidelines and AUS findings, the file must include the following:

- Current 30-day paystub
- Most recent two years of W-2s and personal tax returns
- Written verification of employment confirming any ownership percentage
- Validated tax returns
- Only IRS-validated income may be used for qualification

K-1 Income for Borrowers with Less Than 25% Ownership

In addition to agency guidelines and AUS findings, the file must include the following:

- Most recent two years of K-1s
- Two years of personal tax returns
- Tax transcripts for the prior two years
- Year-to-date income supporting prior K-1 income
- Only IRS-validated income may be used for qualification

Self-Employment

In addition to agency guidelines and AUS findings, the file must include the following:

- When no return has yet been filed for the most recent tax year, provide a signed and dated income statement to support the prior year's earnings and provide evidence of tax extension.
- When the application date is April 30 or later, the current year-to-date statement must extend through the most recent quarter and to within one month of closing.
- If the most recent two years of tax returns are provided and income does not reflect a decline, a year-to-date profit and loss statement is not required. If an extension was filed for the most recent tax year, a year-to-date profit and loss statement is required.
- Tax transcripts are required for each year required by agency guidelines and AUS findings. Borrower may not provide transcripts directly.

Future Employment / Employment Contract

In addition to agency guidelines and AUS findings, the file must include the following:

- A fully executed offer letter or employment contract is required and must include the start date, annual salary, and position.
- The file must document that all contingencies have been met, or the employer must confirm there are no contingencies.
- Income must be from new primary employment, must be non-fluctuating, and the employer may not be a family member.
- Employment must begin within 60 days after the note date.
- This is permitted only for purchase transactions and rate/term refinances secured by a 1-unit primary residence.

- The borrower must document written notice to leave the current employer, and the 10-day pre-closing verification must confirm the terms have not changed.

8.6 Unacceptable Income Sources

- Asset depletion on DU/Fannie Mae transactions; asset depletion is permitted on LPA/Freddie Mac transactions only
- Boarder income
- Capital gains
- Cryptocurrency income
- Deferred compensation
- Foreign income
- Temporary or one-time income (including inheritance, lawsuits, and lottery winnings)
- Farm income from the subject property
- Gambling income
- Rental income from a second home or a 1-unit subject property (including an ADU)
- Retained earnings
- Stock options
- Trailing spouse income
- Unemployment income
- Education benefits
- Unverified income
- Any income that is not obtained legally under applicable federal, state, and local law

9. PROPERTY AND APPRAISAL

9.1 Eligible Property Types

- Single-family residences
- 2-unit primary residences
- 1-unit second homes
- Planned Unit Developments (PUDs)
- Site condominiums
- Condominiums (attached projects)
- Condominiums must be warrantable. Follow agency guidelines.
    - If a condo project is not already approved by Fannie Mae or Freddie Mac, the file must contain a Condo Project Manager or Condo Project Advisor result showing Lender Approved.
    - Non-realty items (for example, boat docks or cabanas) may not be financed. An assigned parking space may be financed as part of the property.
- Properties with solar panels are eligible per agency requirements.
- Property must be 40 acres or less
    - No part of the property can be commercially used or tillable.
    - If the property exceeds 20 acres, reduce the maximum LTV/CLTV for the product by 10%.
    - Comparable sales must support similar acreage with minimal or no acreage adjustment.

9.2 Ineligible Property Types

- Condotels
- Timeshares
- Modular homes
- Mobile homes
- Manufactured homes
- Mixed-use properties
- Non-warrantable condominium projects
- 2- to 4-unit second homes
- 3- to 4-unit primary residences
- Properties with condition rating C5 or C6
- Properties with quality rating Q6
- Leasehold estates
- Life estates
- Properties in Hawaii lava zones 1 or 2
- Unique or specialty properties (for example, log, berm, dome, or off-grid homes)
- Co-ops
- Group or live/work housing
- Working farms or ranches
- Properties with deed restrictions other than age-restricted properties permitted by Fannie Mae
- Properties with known environmental hazards or problems

9.3 Escrow Holdbacks

- Merchants will not purchase loans with outstanding repair items.
- An escrow holdback is acceptable only after the work is complete, the holdback funds have been disbursed, and a completion certificate has been provided.

9.4 Disaster Policy

- If a natural disaster occurs before Merchants purchases the loan, the seller must ensure the subject property has no material damage.
- If the federal government declares a disaster with **individual assistance**, a FEMA disaster notification is issued, and applicable agency inspection requirements must be followed.
- A disaster declaration with **public assistance only** does not require re-inspection.
- Follow the applicable agency guidelines for disaster inspection requirements.

9.5 New Construction

For newly constructed properties where taxes have not yet been assessed, the file must contain evidence of the applicable county tax rate. For qualifying purposes only, monthly taxes may be calculated by applying that percentage to the appraised value.

9.6 Appraisal Requirements

- A full Uniform Residential Appraisal Report with interior and exterior inspection is required, regardless of AUS findings.
- The file must include the complete appraisal report with all applicable photographs, the appraiser's current license, invoice, E&O insurance, and agency SSR reports.
- The appraiser must certify compliance with ANSI standards.
- Appraisals are transaction-specific and are valid for up to 120 days from the note date; they may be extended to 180 days from the note date with an acceptable recertification of value.
- If the recertification indicates the value has declined from the original appraisal, a new full appraisal is required.
- Appraisal management companies are preferred but not required.
- If two appraisals are obtained, they must be ordered from independent companies, both reports must be reviewed, and any discrepancies must be reconciled. If only a recertification is required, the original appraiser may provide it.

9.7 Secondary Valuation Requirements

- A CU or LCA score greater than 2.5, or a report with no score on the SSR, requires a second valuation. This applies to all MPP products.
- When using DU, determine the need for a second valuation based on the CU score. When using LPA, determine the need based on the LCA score. The two scores may not be used interchangeably.
- A second full appraisal is required when the loan amount exceeds $2,000,000. Value is based on the lower of the two appraisals.
- If two full appraisals are obtained, a CDA or CCA is not required.
- If the seller acquired the property within 90 days of the sales contract, a second full appraisal is required.
- If the appraisal indicates the property is in a declining market, reduce the maximum product LTV by 10%.

9.8 Acceptable Secondary Valuations

- Collateral Desktop Analysis (CDA) from Clear Capital or Consolidated Collateral Analysis (CCA) from Consolidated Analytics
- Field review*
- Full appraisal*

When a CDA or CCA is used as the secondary valuation, the following requirements apply:

- If the CDA or CCA value is higher than the appraised value, use the original appraised value.
- If the CDA or CCA value is lower than the appraised value but within 10%, use the original appraised value.
- If the CDA or CCA value is lower by more than 10% or is returned as indeterminate, obtain a third valuation (field review or full appraisal), and base value on the lowest of the original appraisal, field review, or second appraisal.

*Any field review or second appraisal must be ordered from a different appraisal company than the original appraisal.

9.9 Ineligible Appraisals

- Any valuation other than a full appraisal report, including Value Acceptance, Value Acceptance+, ACE, ACE+PDR, and exterior-only appraisals
- Transferred appraisals
- Appraisals more than 180 days old as of closing