



Product Specifications for NexBank Mortgage Connect Fully Amortized Loans

Effective: 10/22/2018

Product Codes

N51, N71 and N101: Fully amortized 30 YR 5/1, 7/1 and 10/1 ARM

N511 and N711: 5/1 Interest-Only, 7/1 Interest-Only - Fully amortized 30 YR with a 10 Year IO Period.

N1011: 10/1 Interest-Only - Fully amortized 20 YR with a 10 Year IO Period.

N55: Fully amortized 30 YR 5/5 ARM

N30: Fully amortized 30 Year Fixed Rate

N15: Fully amortized 15 Year Fixed Rate

Wholesale Transactions: Maximum price, including lender compensation, is capped at the lesser of 102,500 or \$15,000 after adjustments.

Exceptions to program guidelines, if approved by NexBank, will be subject to price and/or rate adjustments.

Minimum Loan Amount is \$453,101

PRIMARY RESIDENCE⁽¹⁾

Loan Purpose	Units ⁽³⁾	Loan Amount	Max Cash Back	Max LTV	Max CLTV	Max DTI	Minimum FICO
High LTV Purchase ⁽²⁾ - N30 Only	1 Unit/PUD/Condo	≤ \$1,000,000	N/A	90	90	40%	≥700
		≤ \$1,500,000	N/A	90	90	40%	≥ 720
High CLTV Purchase ⁽²⁾	1 Unit/PUD/Condo	≤ \$1,000,000	N/A	80	90	40%	≥ 700
		≤ \$1,500,000	N/A	80	90	40%	≥ 720
Purchase or R/Term Refi	1 Unit/PUD/Condo	\$1,500,000	N/A	80	80	43%	680
		\$2,000,000		70	70		
Cash-Out Refinance (Refer to "Cash-Out" Guides)	1 Unit/PUD/Condo	\$1,500,000	\$500,000	75	75	43%	680

SECOND HOME⁽¹⁾

Loan Purpose	Units ⁽³⁾	Loan Amount	Max Cash Back	Max LTV	Max CLTV	Max DTI	Minimum FICO
Purchase or R/Term Refi	1 Unit/PUD/Condo	\$1,500,000	N/A	75	75	43%	680

INVESTMENT⁽¹⁾⁽²⁾

Loan Purpose	Units ⁽³⁾	Loan Amount	Max Cash Back	Max LTV	Max CLTV	Max DTI	Minimum FICO
Purchase or R/Term Refi N30 only	1-4/PUD/Condo	\$1,000,000	N/A	75	75	43%	700
Purchase or R/Term Refi All except N30				80	80		680

⁽¹⁾Loans with an Interest-Only feature: See "ARM Loans with Interest-Only Feature" section below for restrictions.

⁽²⁾First Time Homebuyers are not eligible.

⁽³⁾Loans secured by a condominium only allowed on N30 product.

Topic

Underwriting Specifications

Appraisals	<ul style="list-style-type: none"> A full appraisal with an interior and exterior inspection, including interior and exterior photos, is required. All loans to \$1,500,000 will require a CDA* (Desk Review) from Clear Capital All loans \$1,500,001+ must have two (2) full appraisals AND a CDA* (desk review) from Clear Capital <i>*If the CDA result reflects a value more than 10% below the original appraisal(s), then a field review (ordered by the TPO) by a NexBank approved AMC is required.</i> Clear Capital contact information: 530-550-2530 https://www.clearcapital.com customer@clearcapital.com **Must specify ordering w/ NexBank For Wholesale Transactions, all appraisals must be ordered through a NexBank approved AMC. Appraisal transfers are not permitted Appraisers must not appear on the NexBank Ineligible Appraiser list. Appraisers must address properties located in a FEMA declared Disaster Area, per the NexBank Disaster guidelines. Properties with condition ratings of C5 or C6 are not eligible. Properties with quality rating of a Q6 is not eligible. All appraisals must comply with applicable regulations and standards including but not limited to USPAP, FIRREA, AIR and HVCC Compliance. Properties listed for sale within three months of the application date, on refinance transactions, are ineligible. Newly constructed homes must provide a copy of the Certificate of Occupancy. If the local jurisdiction does not issue a Certificate of Occupancy, evidence from the jurisdiction must be provided. For example, website print out or letter from the local jurisdiction. 															
	ARM Loans	<ul style="list-style-type: none"> Initial ARM disclosures must be executed by the borrowers. ARM disclosures can be found on our website under the Resource Center. Refer to "Qualifying Rate" section for qualifying rate details. 														
ARM Loans with Interest-Only Feature	<ul style="list-style-type: none"> Loans with an interest-Only feature (N511, N711, N1011) Max LTV/CLTV is 65%. Loans with an interest-Only feature require 24 months post-closing reserves: 1) For N511 and N711 reserves are calculated based on interest-only payment plus taxes, insurance and HOA. 2) For N1011 reserves are calculated based on the full principle and interest, plus taxes, insurance, and HOA. Interest Only ARMs Qualifying Ratios: For N511 or N711 may be calculated on the Interest Only payment (plus applicable taxes, insurance, HOA). For N1011 must be calculated on the fully indexed/fully amortized rate (plus applicable taxes, insurance, HOA). Additional 10/1 Interest-Only ARM (N1011) Restrictions: 1) Minimum 740 FICO required. 2) Max loan amount is \$1,500,000. 3) Not available for Investment Property transactions. 4) Not available for Cash-Out Refinances. 5) Not available to First-Time Homebuyers or Non-Permanent Resident Aliens. 															
	ARM Rate Caps & Margins	<table border="1"> <thead> <tr> <th>Product Code</th> <th>Interest Rate Cap</th> <th>Margin</th> </tr> </thead> <tbody> <tr> <td>N51, N511</td> <td>2/2/5</td> <td>2.50%</td> </tr> <tr> <td>N55</td> <td>2/2/5</td> <td>2.50%</td> </tr> <tr> <td>N71, N711</td> <td>5/2/5</td> <td>2.50%</td> </tr> <tr> <td>N101, N1011</td> <td>5/2/5</td> <td>2.50%</td> </tr> </tbody> </table> <p>Index 1 Year LIBOR, Interest rate floor equals the margin</p>	Product Code	Interest Rate Cap	Margin	N51, N511	2/2/5	2.50%	N55	2/2/5	2.50%	N71, N711	5/2/5	2.50%	N101, N1011	5/2/5
Product Code	Interest Rate Cap	Margin														
N51, N511	2/2/5	2.50%														
N55	2/2/5	2.50%														
N71, N711	5/2/5	2.50%														
N101, N1011	5/2/5	2.50%														
Cash-Out Loans	<ul style="list-style-type: none"> "Max Cash Back" limitation (from LTV matrix above) does not apply to a subject property that's owned free and clear for all products, except N30. "Max Cash Back" limitation for N30 loans does not apply if the LTV/CLTV does not exceed 55%. Texas 50(a)(6) loans not permitted on N30 product. 															
Closing	<ul style="list-style-type: none"> Taxes or Insurance due within 60 days of closing must have evidence they are paid at closing/prior to purchase. All of the following are required for closing: 12 month chain of title, Closing Protection Letter, Tax Certification/Information and Wiring Instructions. Title Commitment must reflect correct vesting, loan amount and have an effective date within 60 days of closing. Closing Protection Letter must reflect one of the following: Loan number, Borrower Name or Subject Property Address 															

Topic	Underwriting Specifications
Closing (continued)	<ul style="list-style-type: none"> Hazard/Homeownership Insurance: Acceptable coverage is the lesser of 100% of the insurable value of the improvements OR the subject loan amount as long as it equals the minimum amount of 80% of the insurable value of improvements. Insurable value of improvements must be determined by the estimated costs new/cost to rebuild as detailed by the insuring company as documented by the cost estimator provided by the insuring company. If the Evidence of insurance does not reflect one of the above acceptable calculations, the policy must then reflect an acceptable "guaranteed replacement cost" verbiage on the Evidence of Insurance. Acceptable evidence of insurance is the original insurance policy (showing all necessary information and signed by the insurer), or short form certificate of insurance/Evidence of Insurance" (showing all of the necessary information and signed by insurer), OR an Insurance Binder, provided the binder is: 1) issued and signed by a licensed recording agent; 2) accompanied by a paid receipt (or will be paid at closing on the Closing Disclosure), 3) includes an actual policy number and 4) provides coverage good for 12 full months (no exceptions) from the NexBank loan disbursement date, unless otherwise required by state law. HO6/"Walls-In" Insurance Requirements: All attached projects, including two-to-four units, must contain a "walls-in" hazard insurance coverage policy (commonly known as HO-6/Walls-In). If the master policy of a project does not cover the unit (walls-in) then: 1) Provide the HO6 policy or equivalent reflecting that it provides coverage for 100% of the insurable value of the improvements and betterments. The amount of coverage must be sufficient to restore the unit to its condition prior to a loss claim event, or 2) provide the breakdown or "cost estimator" from the insurance company on how they determined the amount of coverage provided to restore the unit to its condition prior to a loss claim event, or 3) Obtain a statement from insurance company that this is the maximum they will insure and that this is sufficient to restore the unit to its conditions prior to a loss claim event. Flood insurance, if required, must be escrowed and comply with all regulations, including but not limited to HFIAA.
Credit	<ul style="list-style-type: none"> At least one borrower, must meet one of the following to satisfy minimum credit depth, however all borrowers must have a minimum of two (2) FICO scores: <ul style="list-style-type: none"> A minimum of two (2) active* FICOs with a minimum of two (2) active* tradelines which meet the following: A mortgage rated for a minimum of 24 months and additional tradeline rated for a minimum of 12 months; or A minimum of two (2) FICOs with a minimum of three (3) active* tradelines which meet the following: All three tradelines must be rated for a minimum of 12 months with at least one being an installment or mortgage debt *Active trade line is defined as an account which is still open and has not been closed. Tradelines that are shown in dispute, unless shown as resolved, cannot count toward the minimum tradeline requirement. Frozen Credit Bureau: One bureau, per borrower, may remain in its current "frozen" status. If more than one bureau reflects "frozen" the loan will be ineligible until all bureau's have been unfrozen and a new credit report is obtained reflecting such. Disputed tradelines must be shown as resolved or have the disputes removed with a new credit report pulled reflecting no dispute. If not living rent free per a rent free letter, mortgage or rental housing history must reflect OX30 day late payments within the last 24 months. If renting/paying to a company, housing history may be verified with a VOR or VOM (rental or mortgage history reported on the credit report is acceptable). If renting/paying to an individual (not a company), 24 months cancelled payment checks are required. No borrower can have any 90 day lates on any type of account, including but not limited to revolving, installment, etc., in the last 12 months All credit inquiries within 120 days of the credit report must be addressed by the borrower. Any new debt resulting from the inquiry must be documented and included in the borrower's DTI. Addresses reported on the credit report within the last 2 years, or other documentation showing an address not listed on the application, must be explained by the borrower. Revolving debts being paid off to qualify must: 1) have evidence the account has been closed prior to the subject loan closing; 2) be paid in full prior to, or at closing and 3) must source the funds used to pay off the account. Revolving Account Monthly Payment Calculation: If the credit report shows any revolving accounts with an outstanding balance but no specific minimum monthly payment, the payment must be calculated at the greater of: 1) 5% of the balance or 2) \$10.00. <i>NOTE: If the actual monthly payment is documented from the creditor, or the TPO obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes.</i> Installment debts with less than 10 months payments may be omitted from qualifying ratios, unless the monthly payment could adversely affect the borrower's ability to repay the debt within the first 10 months of the loan. Debts may not be paid down to less than 10 months for qualifying purposes only. <i>Additional reserves, covering the remaining payments on the debt(s), will be considered favorable.</i> Contingent Liability on Cosigned Obligations: Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on: a car loan, a student loan, a mortgage or any other obligation. If the TPO obtains documented proof that another obligor on the debt has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations. Debts recently opened with less than a 12 month pay history must have evidence of the payments being made by the other obligor since the first payment due. Alimony: Borrowers obligated to pay alimony may have the payment deducted from the gross qualifying income in lieu of treating it as a monthly obligation. Deferred student loans should be qualified with a payment of 1% of the current outstanding balance; or the actual expected estimated payment, as documented by the loan servicer which could be \$0, once the deferment period ends. Open IRS debts: 1) must be explained by the borrower, 2) must have an approved payment arrangement, 3) must have evidence that at least the first month payment has been made per the payment arrangement. <i>NOTE: Any open "liens" to the IRS (reflected on title or the public records per the credit report) must be paid in full, and released, prior to closing.</i>
Credit Events (Derogatory Credit)	<ul style="list-style-type: none"> Previous Bankruptcies, Foreclosure, Short Sale, Deed-in-Lieu, Loan Modifications due to a hardship are not permitted, regardless of seasoning. Previous or current consumer credit counseling is not permitted, regardless of seasoning. Collections/Charge offs: If the aggregate amount of outstanding collections is equal to or greater than \$1,000, all collections must be paid in full. Charge-off accounts do not have to be satisfied and are not included in the calculation of the aggregate collection accounts. Funds to pay off the collection account(s) must be sourced. A satisfactory, detailed, letter of explanation is required for any derogatory credit reflected on the credit report in the last 24 months. Any open "liens" to the IRS (reflected on title or the public records per the credit report) must be paid in full prior to or at closing. Funds to pay off the liens must be sourced.
Delayed Financing	<ul style="list-style-type: none"> Delayed Financing is defined as a cash-out refinance of a property purchased with all-cash or unsecured loans within 60 days of application. The source of funds for the purchase of the property must be verified and any unsecured debt must be paid off through the cash-out refinance. Closing Disclosure (HUD-1) from the original purchase must show all cash was used for the purchase of the property. Will be classified as a cash out refinance for eligibility and pricing purposes, but is not subject to the max cash out restriction.
Disclosures (Program Specific)	<ul style="list-style-type: none"> Borrower(s) must execute a "Know Before You Owe" (Home Loan Toolkit) acknowledgement certifying the toolkit was delivered to borrower(s) within three days of the signed application for all loans. For all Full Doc Jumbo ARM loans, borrower(s) must execute a CHARM booklet acknowledgement certifying that the CHARM booklet was delivered timely to the borrower(s) from the date of the signed application.
Document Expiration	<ul style="list-style-type: none"> Appraisal and credit documentation including paystubs, bank statements, credit report, etc. expire after 120 days.
Eligible Borrowers	<ul style="list-style-type: none"> U.S. Citizens (including US Citizens living abroad) Permanent Resident Aliens Non-Permanent Resident Aliens: 1) Not eligible for High LTV Purchase or non-owner occupied transactions. 2) For all eligible products, except N30, max LTV/CLTV is reduced by 10%. Non-Permanent Resident Aliens must meet one of the following verification types: <ul style="list-style-type: none"> Acceptable VISA types: E-1, E-3, G1-5 (with proof no diplomatic immunity), H-1, H-1B, H-2A, H-2B, H-3, L-1, NAFTA/TC or TN Employment Authorization Document Card only, not allowed. <i>NOTE: There should be a documented employment and income history including but not limited to two years of US tax returns and a history of visa renewals and no reason to believe employment will cease.</i>

Topic	Underwriting Specifications
Eligible Assets/Reserves (See "Reserves" for requirements")	<ul style="list-style-type: none"> Final 1003, submitted by TPO to NexBank, may not reflect a negative net worth for the borrower(s).
	<ul style="list-style-type: none"> 1031 Exchanges are ineligible
	<ul style="list-style-type: none"> Required minimum contribution of 10%, of the lower of the sales price or appraised value, must be from the borrower's own funds.
	<ul style="list-style-type: none"> Borrower's own funds must be seasoned in a United States bank account(s) only. Foreign funds are not permitted.
	<ul style="list-style-type: none"> Gift funds permitted from immediate family members, after borrower's required minimum contribution has been met, which may be used for down payment, funds to close, and reserves.
	<ul style="list-style-type: none"> Cryptocurrency (or crypto currency) such as Bitcoin, Ethereum, Ripple, Bitcoin Cash, Cardano, Litecoin, etc. are not permitted.
	<ul style="list-style-type: none"> Checking/Savings/Money Market accounts must be verified with a VOD or two months current and consecutive bank statements, or a verification completed by a FNMA approved third-party vendor in which the verification also includes all the pertinent identifying information such as acct number, borrower name(s), address, etc. Account printouts/updates will be considered if the account printouts include: 1) Financial institution name, 2) date 3) borrower(s) name(s), 4) account number, 5) complete transaction history and 6) an ending/current balance. Printouts/updates not containing all of this information will not be acceptable, and would need to be supplemented with a full VOD.
	<ul style="list-style-type: none"> Business Funds must be verified with a VOD or two months current and consecutive bank statements. Account printouts/updates will be considered if the account printouts include: 1) Financial institution name, 2) date 3) business name, 4) account number (truncated account numbers are acceptable), 5) complete transaction history and 6) an ending/current balance. Generally, printouts/updates not containing all of this information will not be acceptable, and would need to be supplemented with a full VOD. Use of business funds for the source of funds down payment or reserves will be allowed where: 1) the borrower(s) own 100% of the business in which funds are being considered and 2) the business CPA or other reasonable and reliable third party verification confirms the use of business funds will not negatively impact the business.
	<p>Large deposits in business accounts (singular, or a combination of multiple deposits reflected on any one bank statement) on purchase transactions must be sourced if they are 50% or more than the monthly average of "Gross receipt or sales" reflected on the business tax returns. Note: If the same type of seemingly large deposit is received month over month, this could be considered typical for the business and would not have to be documented.</p> <p>For example, Borrower's business bank statement reflects a \$70,000.00 on one month's statement. This size deposit is not repeated on additional month's statements/printouts. To determine if the deposit is considered large enough to be documented, the UW should take the "Gross receipts or sales" from the business tax return, divided by 12, to determine if it's over the 50% threshold.</p>
	<ul style="list-style-type: none"> Large deposits (singular, or a combination of multiple deposits reflected on any one bank statement) on purchase transactions must be sourced if: 1) They are 50% or more than the total monthly qualifying income. This includes joint accounts with another person that is not a party to our transaction. 2) Single deposit(s) >\$1,000, where the borrower(s) have direct deposit and no additional sources of potential income (second jobs, side businesses as reflected on tax returns, tip income, etc.) <p><i>NOTE: Deposits or transfers may be "backed out" of the qualifying balance without further documentation, at the underwriters discretion.</i></p>
<ul style="list-style-type: none"> Large deposits (singular, or a combination of multiple deposits reflected on any one bank statement) do not have to be sourced on refinance transactions, except where the large deposit(s) is extremely unusual for the borrower's typical savings history. <p><i>NOTE: Deposits or transfers may be "backed out" of the qualifying balance without further documentation, at the underwriters discretion.</i></p>	
<ul style="list-style-type: none"> Stocks/Bonds/Mutual Funds: Must be verified with a VOD or two months current and consecutive bank statements. 70% of funds may be used as funds to close and/or reserves. Proof of liquidation for funds to close is not required. 	
<ul style="list-style-type: none"> Retirement Assets (including 401(k); IRA and Keogh): Must be verified with a VOD, account summary or most recent one month statement. 60% of the vested balance, minus any outstanding loans, in which the borrower is vested (has access to the funds) may be used as funds to close or reserves. If the borrower(s) is of retirement age (59.5 year's old) then 70% of the vested amount, minus any outstanding loans, may be used as funds to close or reserves. Proof of liquidation of funds is not required when the funds will be used for closing. Terms and conditions of withdrawal must be obtained to determine the level of access, unless the account is an IRA or the subject property is a Primary Residence. If the borrower is unable to withdraw funds or take a loan from the retirement account, the funds may not be used for qualifying, and therefore cannot be listed on the 1003. 	
<ul style="list-style-type: none"> Secured/Unsecured Funds: Secured funds may be utilized to meet the borrower's minimum contribution (10%), funds to close, and reserve requirements. The collateral securing the debt must be verified as an acceptable source for securitization. A payment for the secured debt would not have to be considered against the qualifying DTI. Unsecured funds: May be utilized for funds to close and reserve requirements, after the borrower's minimum contribution (10%). The debt must be verified and qualifying payment considered in the subject loan DTI. 	
Escrow Holdback	<ul style="list-style-type: none"> Permitted on an exception only basis.
First-Time Homebuyers	<ul style="list-style-type: none"> Defined as: Borrower(s) with no current/active mortgage history in the past three-years (from the date of the credit report).
	<ul style="list-style-type: none"> First Time Homebuyers: Max LTV/CLTV is 80% Not eligible for non-owner occupied transactions.
Income	<ul style="list-style-type: none"> 1003 must disclose the borrower(s) employment during the most recent two full years. Any gaps in employment that span one or more months must be explained. If the borrower(s) indicate that he/she was in school or the military for the recent two full years, documentation such as college transcripts, or discharge papers, must be provided to support the history.
	<ul style="list-style-type: none"> Borrower(s) that have recently changed employment, or are accepting new employment, must have started their new employment prior to closing as evidence with a verbal or written VOE, and must have received their first paystub prior to closing and funding. The paystubs provided must reflect enough YTD earnings for the underwriter to conclude the total monthly qualifying income has been supported. Executed offer-letters and contracts of employment alone, are not acceptable as the final income documentation.
	<ul style="list-style-type: none"> Borrower(s) that change jobs frequently within the same line of work, but continues to advance in income or benefits, will be considered favorable as the income stability takes precedence over job stability.
	<ul style="list-style-type: none"> Borrower(s) returning to work after an extended absence of 6 or more months of unemployment may be considered effective and stable if he/she: 1) Is employed in the current job for six months or longer; and 2) Can document a two-year work history prior to an absence from employment using either written VOE(s) and/or copies of previous W-2s or pay stubs.
	<ul style="list-style-type: none"> Borrower's Employed By a Family Owned Business: In addition to normal employment verification, a borrower employed by a family owned business is required to provide: 1) most recent two year's signed tax returns, and 2) evidence that he/she is not an owner of the business. This can be verified through the signed personal tax returns, or a signed copy of the corporate tax return showing ownership percentage.
	<ul style="list-style-type: none"> Verbal VOE's: To ensure the 1003 accurately reflects the borrower(s) current/full employment history for the most recent two years, NexBank requires a VVOE (or written VOEs in lieu of the verbal) on all employment being considered for qualifying during underwriting, but prior to closing. Additionally, to ensure the borrower(s) employment has not changed during the course of process, NexBank will complete an internal verification of employment immediately prior to the subject loan funding. <p>For self-employed borrower(s), within 30 days of closing, a CPA letter, business license or other documentation confirming a 24 month self-employment history for each business, unless a lesser time frame of self-employment has been deemed stable by the underwriter, AND evidence of the business phone number through a phone listing, internet, etc. for all self-employed businesses used for qualifying. The source of the information must be documented via online print-out, etc.</p> <p><i>NOTE: The date incorporated on the business tax return cannot be utilized to confirm the 24 month self-employment history.</i></p> <ul style="list-style-type: none"> W-2 Wage Earners, salary or base wages: Qualifying income must be documented with a YTD paystub and two year's most recent W-2's. When a borrower's employment is less than a typical 40-hour work week, the income will be evaluated as stable and regular, on-going primary employment. For example, a registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income. <p>Borrowers whose primary job has fluctuating hours must be averaged over a minimum of 12 months with the current employer.</p>

Topic	Underwriting Specifications
Income (continued)	<p>• Overtime and Bonus Income: May be used to qualify if the borrower(s) 1) has a history of receiving this type of income for at least the past two years, 2) the borrower has received this type of income on their current employment for a minimum of 12 months, and 3) there is no indication that the income will likely cease at any time. For example, if the employment verification states that the overtime and/or bonus is unlikely to continue, it may not be used in qualifying. Generally, an average of overtime and bonus income should be developed for the past two years, for the borrower's current employment. Periods of overtime and bonus income less than two years may be acceptable, provided the TPO can justify and document in writing the reason for using the income for qualifying purposes. Under no circumstance will NexBank consider overtime or bonus where the borrower has not received at least 12 months on their current employment. The underwriter must be able to establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the underwriter must be able to provide a sound rationalization for including the income when qualifying the borrower. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.</p>
	<p>• Commission Income: May be used to qualify if the borrower(s) 1) has a history of receiving this type of income for at least the past two years, 2) the borrower has received this type of income on their current employment for a minimum of 12 months, and 3) there is no indication that the income will likely cease at any time. Generally, an average of commission income should be developed for the past two years, for the borrower's current employment. Periods of commission income less than two years may be acceptable, provided the TPO can justify and document in writing the reason for using the income for qualifying purposes. Under no circumstance will NexBank consider commission income where the borrower has not received at least 12 months on their current employment. The underwriter must be able to establish and document an earnings trend for commission income. If the income type has a continual decline, the underwriter must be able to provide a sound rationalization for including the income when qualifying the borrower. A period of more than two years must be used in calculating the average commission income if the income varies significantly from year to year.</p>
	<p>• Part-time Income, for qualifying purposes, refers to employment taken to supplement the consumer's income from regular employment; part-time employment is not a primary job and is worked less than 40 hours. Part-time income may be used to qualify if the borrower: 1) has worked the part-time job uninterrupted for the past two years, and 2) certifies their intentions to continue the part-time work. Generally, an average of part-time income should be developed for the past two years, for the borrower's current employment, and the average should be supported by the borrower's current YTD earnings.</p>
	<p>• Seasonal Employment: May be used for qualifying if the borrower(s) 1) has worked the same job for the past two years and 2) expects to be rehired the next season. Generally, an average of the seasonal income should be developed for the past two years, for the borrower's seasonal employment, and the average should be supported by the borrower's current YTD earnings.</p>
	<p>• Retirement Income, such as employer pensions or 401(k)'s: May be used to qualify if 1) the income is verified from the former employer, or from Federal tax returns and 2) a three year continuance, from the note date of the subject loan, can be verified.</p>
	<p>• Social Security Income: May be used to qualify if 1) the income is verified by a Social Security Administration benefit verification letter (sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). 2) a three year continuance, from the note date of the subject loan, can be verified. <i>NOTE: If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three years of loan origination, the income will be considered effective and likely to continue. Additionally, pending or current reevaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue.</i></p>
	<p>• Automobile Allowances and Expense Account Payment: The amount by which the borrower(s) automobile allowance or expense account payment exceed actual expenditures may be considered income and used to qualify. To establish the amount to add to gross income, the borrower must provide: 1) a written VOE verifying the income for the past two years, 2) IRS Form 2106, Employee Business Expenses, for the previous two years; and 3) employer must confirm in writing that the payments will continue. If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual costs method, the portion that the IRS considers depreciation may be added back to income. Expenses that must be treated as recurring debt include: 1) the borrower's monthly car payment; and 2) any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance.</p>
	<p>• Alimony, Child Support, and Maintenance Income: May be used to qualify if: 1) payments are likely to be received consistently for the first three years of the mortgage; 2) the borrower provides a copy of the final divorce decree, legal separation agreement, court order, or voluntary notarized payment agreement executed by both parties, and 3) the borrower can provide acceptable evidence that payments have been received during the last 12 months with cancelled checks, deposit slips, tax returns, or court records. Periods less than 12 months may be acceptable, provided the borrower can adequately document the payer's ability and willingness to make timely payments. Under no circumstance will NexBank consider Alimony, Child Support, or Maintenance Income where the borrower has not received at least 6 months of the income. Payments may not be paid ahead/in advance to meet this minimum requirement.</p>
	<p>Interest and Dividend Income: May be used to qualify as long as tax returns or account statements support a two-year receipt history. This income must be averaged over the two years, and must have a three year continuance from the note date of the subject loan. <i>NOTE: Any funds that are derived from these sources, and are required for the cash investment of the subject transaction, must be subtracted before calculating the projected interest or dividend income.</i></p>
	<p>• Trust Income: May be used to qualify if constant payments will continue for at least the first three years from the note date of the subject loan, as evidenced by trust income documentation. Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the: 1) amount of the trust, 2) frequency of distribution and 3) duration of payments. <i>NOTE: Trust account funds may be used for the required cash investment if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The consumer may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.</i></p>
	<p>• Notes Receivable Income: May be used to qualify if the borrower provides: 1) a copy of the note to establish the amount and length of payment, 2) evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns, and 3) payments are likely to be received consistently for the first three years from the subject mortgage note date. <i>NOTE: If the borrower is not the original payee on the note, evidence must be provided that the borrower is able to enforce the note.</i></p>
	<p>• Military Income: Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as income from variable housing allowances, clothing allowances, flight or hazard pay, rations and proficiency pay. These types of additional pay are acceptable when analyzing a consumer's income as long as the probability of such pay to continue is verified in writing. <i>NOTE: If the income is considered non-taxable, it may be grossed up based on the borrower's tax bracket determined by the IRS.</i></p>
	<p>• VA Benefits: Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the borrower provides documentation from the VA. <i>NOTE: Education benefits used to offset education expenses are not acceptable.</i></p>
	<p>• Foreign Income: Is income earned by a borrower who is employed by a foreign corporation or a foreign government, paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met: 1) Copies of his or her signed federal income tax returns for the most recent two years that include foreign income. 2) The lender must satisfy the standard documentation requirements (as addressed in this matrix) based on the source and type of income. 3) All income must be translated to U.S. dollars.</p>
<p>• Rental income used for qualifying, from a current primary residence being converted to an investment property, requires the following: 1) A copy of the executed lease agreement which can be month to month or a long term lease, 2) evidence the borrower is relocating for their employment OR can evidence 25% equity in the current property with either a current (no more than 6 months old) interior or exterior only appraisal, or by comparing the original sales price of the property (evidenced by an executed Closing Disclosure/HUD-1) to the current Unpaid Principle Balance. <i>NOTE: If the "Lessor" listed on the lease agreement is not the borrower's name, any consideration for the management company or individual managing the property will be considered as a part of the 25% vacancy factor and no further documentation is required.</i></p>	

Topic	Underwriting Specifications	
Income (continued)	<ul style="list-style-type: none"> Rental income used for qualifying, from investment/non-owner occupied properties, must be currently rented (not vacant) to use the rental income for qualifying. Rental income must be verified with most recently filed tax return <u>and</u> a current lease agreement. If the property was acquired since the last income tax filing and is not shown on Schedule E, a copy of the executed lease agreement which can be month to month or a long term lease must be provided. <i>NOTE: If the lease has a provision in order to continue on a month to month basis and is expired, but provided by the consumer, it will be considered the current lease to be utilized for qualifying. If the "Lessor" listed on the lease agreement is not the borrower's name, any consideration for the management company or individual managing the property will be considered as part of the 25% vacancy factor and no further documentation is required.</i> 	
	<ul style="list-style-type: none"> Self-Employed Income: Income from self-employment is considered stable, and effective, if the borrower has been self-employed two or more years in the same business. <i>NOTE: 1099 borrowers are considered self-employed.</i> Due to the high probability of failure during the first few years of a business, the following requirements are necessary for borrowers who have been self-employed for less than two years: 1) If the period of self-employment is between one and two years, to be eligible for a mortgage loan, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. <i>Note: A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable.</i> 2) If the period of self-employment is less than one year, the income from the borrower may not be considered effective income. The income must be documented with <u>signed and dated</u> individual tax returns, with all applicable tax schedules, for the most recent two years. For a corporation, "S" corporation, or partnership, see the following section regarding business tax returns. Under no circumstance will NexBank consider self-employed income where the borrower has not received at least 12 months reported on a federal tax return. The underwriter must be able to establish and document an earnings trend for self-employed income utilizing two year's tax returns. If the income shows a continual decline, the underwriter must be able to provide a sound rationalization for including the income when qualifying the borrower. A period of more than two years must be used in calculating the self-employed income if the income varies significantly from year to year. The underwriter must consider the business' financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable. <i>NOTE: If the Self-Employed borrower issues themselves a W-2 as evidenced by the most recent year's tax return <u>and</u> the W-2 income from the business is being used to qualify, a YTD paystub should be provided to support the continuance of the W-2 income. If a YTD paystub is not yet available due to the borrower only issuing paystubs at certain points of the year, then a letter from a third party, such as the CPA or independent accountant, stating that no YTD paystub has been issued but confirming the anticipated amount of W-2 income that will be earned for the current year.</i> 	
	<ul style="list-style-type: none"> Two year's <u>signed and dated</u> business tax returns are required under the following circumstances: <ul style="list-style-type: none"> - Borrower is using self-employed income to qualify. - Borrower has a loss from the self-employed business(es), regardless of the type of income being used to qualify. <i>NOTE: Any self-employed losses must be considered and deducted from the final qualifying income calculations.</i> 	
	<ul style="list-style-type: none"> K-1 income from 1120S or 1065 sources used for qualifying must be calculated utilizing the NexBank 1065 & 1120S Income Calculation Worksheet. A current, <u>signed and dated</u>, YTD Profit and Loss (P&L) and Balance Sheet is required for <u>all</u> self-employed businesses found on the personal tax returns, even if positive income is not being utilized to qualify. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's tax returns, the underwriter must base the income analysis solely on the income verified through the tax returns. If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income. Any losses found, even if the tax returns reflect positive income, must be deducted from the borrower's qualifying income. Additionally, the underwriter must be able to determine the decline has since stabilized. 	
	<ul style="list-style-type: none"> Amortization/Casualty Loss, Depreciation, Depletion, Domestic Production Activities Deduction, Carry-Forward Losses and Business of Home deductions on the tax returns may be added back to the gross qualifying income calculations. 	
	<ul style="list-style-type: none"> Unreimbursed Business Expenses must always be considered and deducted from the final qualifying income calculations, regardless of the type/source of income being used for qualifying. 	
	<ul style="list-style-type: none"> Income from gambling winnings is not permitted. 	
	<ul style="list-style-type: none"> Income derived from lines of business which are not "legal" on the Federal level are not an eligible qualifying income source. (For example, the cannabis industry.) 	
	Interested Party Contributions	<ul style="list-style-type: none"> Limited to 6%
	Multiple Property Ownership	<ul style="list-style-type: none"> Borrowers may have no more than four (4) financed properties, in aggregate between all borrowers, including the subject. Exceptions may be granted on a case-by-case bases, with additional compensating factors. <i>Note: Properties owned free and clear are not considered in this limitation.</i> NexBank will finance a max of 4 financed properties for any one borrower regardless of occupancy type. The taxes, insurance, and HOA must be fully documented/verified on all REO. Use of the Schedule E alone is not acceptable. See "reserves" for subject property reserve requirements.
Non-Occupant Co-Borrowers	<ul style="list-style-type: none"> May be considered on exception basis for primary residence transactions only. 	
Non-Owner Occupied Property	<ul style="list-style-type: none"> Minimum 24 months reserves for subject property. Non-owner occupied transactions not eligible for Non-Permanent Resident borrowers. 	
Power of Attorney	<ul style="list-style-type: none"> A Power of Attorney (POA) is not acceptable for loans closing in the name of a trust. 	
Private Mortgage Insurance	<ul style="list-style-type: none"> Not permitted 	
Program Restrictions	<ul style="list-style-type: none"> Prepayment Penalties are not permitted. Borrower(s) who are principal or employees of Third Party Originators (TPO) are not permitted. Properties held in an Estate are not permitted. Properties with confirmed environmental contamination issues are ineligible. Employer/Employee sales are not permitted. 1031 Exchanges are ineligible Mortgage Credit Certificates are not permitted. Flip purchase transactions, in which the seller of the subject property has been vested in title less than 90 days, are not permitted. Borrower(s) affiliated with the builder, developer or property seller are not permitted. Borrowers may only own one second home in the same geographic area. 	
Property Type	<ul style="list-style-type: none"> 10 acres maximum. Condominiums permitted, for N30 products only, which must have Fannie Mae PERS or Condo Project Manager approval. For all transactions a fully completed Condo Questionnaire will be required (including projects already PERS approved). Single Family Detached Residences and PUD's only. Properties zoned agricultural or commercial are ineligible. Hobby Farms and Leasehold properties are ineligible. Co-ops, condotels and manufactured homes are an ineligible property type. Properties encumbered with a "private transfer fee" or "private transfer fee covenant" are not permitted. Properties with condition ratings of C5 or C6 are not eligible. Quality rating of a Q6 is not eligible. Properties with confirmed environmental contamination issues are ineligible. 	
Qualifying Payment	<ul style="list-style-type: none"> Non-Interest Only Loans: The fully amortized payment, based on the qualifying rate, will be used to qualify the borrower. Interest Only Loans: See "ARM Loans with Interest-Only Feature" section above. 	

Topic	Underwriting Specifications
Qualifying Rate (ARM)	<ul style="list-style-type: none"> Will be the greater of: <ul style="list-style-type: none"> For 5/1 and 5/5 ARM: Note Rate + 2% OR Fully Indexed Rate For 7/1 and 10/1 ARM: Note Rate OR Fully Indexed Rate
Qualifying Rate (Fixed)	<ul style="list-style-type: none"> Fixed will be equal to Note Rate
Qualifying Ratios	<ul style="list-style-type: none"> Total monthly housing ratio is limited to 33% Total monthly debt ratio is limited to 43% For LTV's >80% max monthly debt ratio is limited to 40%
Reserves	<ul style="list-style-type: none"> For LTV/CLTV >80% and subject property loan amount ≤ \$1,000,000: 18 months PITIA for subject property required. For LTV/CLTV >80% and subject property loan amounts > \$1,000,000: 24 months PITIA for subject property required. For LTV/CLTV ≤ 80% and subject property loan amount ≤ \$1,000,000: 12 months PITIA for subject property required. For LTV/CLTV ≤ 80% and subject property loan amount > \$1,000,000 to \$2,000,000: 18 months PITIA for subject property required. Loans with an Interest-Only feature and Investment Properties: Regardless of loan amount, 24 months post-closing reserves required. Proceeds from cash-out may not be used to meet reserve requirements.
Seasoning Requirements	<ul style="list-style-type: none"> Liens on the subject property must be seasoned for a minimum of 6 months unless Delayed Financing guidelines are met. HELOC liens must be seasoned 12 months with evidence no draws have been taken in the previous 12 months of the subject application date to be considered a rate/term transaction. Otherwise, the loan will be considered a cash-out transaction. Non-HELOC second liens must be seasoned a minimum of 12 months (from the date of the subject loan application date) or be a purchase money lien to be considered rate/term. Properties listed for sale within three months of the application date, on refinance transactions, are ineligible.
State Restrictions	<ul style="list-style-type: none"> Ineligible states: AK, NJ and NY Texas 50(a)(6) loans not permitted on N30 product.
Subordination Agreement	<ul style="list-style-type: none"> Are required on all subordinate liens.
Temporary Buy Downs	<ul style="list-style-type: none"> Temporary Buy Downs are currently not permitted.
Underwriting	<ul style="list-style-type: none"> IRS 1040 Transcripts will be required for 2 years. W-2 transcripts alone are not acceptable. <i>NOTE: NexBank will accept W-2 transcripts in lieu of the actual/original W-2.</i> A fully executed (but not processed) 4506T is required for each self-employed business utilized to document <u>positive</u> self-employed income to qualify. A cash-out intent letter must be included in the file for all cash-out refinance transactions. Manual underwriting required. AUS not permitted. All loans must be ATR/QM Safe Harbor compliant in accordance with Appendix Q. Subject to approval by NexBank SSB Underwriting Department.