



UPDATES TO GMFS EXPANDED GUIDE ELIGIBILITY GUIDELINES

Effective Date: February 13, 2023

Summary: GMFS Mortgage will amend the following guidelines as detailed below. These changes are applicable to all loans currently in production.

| IMPACTED SECTION | PREVIOUS GUIDELINE | GUIDELINE REVISION |
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| 5.4.2 LIMITED TRADELINES | When qualifying with Limited Tradelines, the lower of either the Representative Loan Score or a 620 score is used to qualify the borrower on the GMFS Non-Prime Matrix. The loan may be priced using the actual Representative Loan Score. | Removed language regarding qualifying score for Limited Tradelines as no longer applicable. See Non-Prime matrix for minimum credit score requirements. |
| 5.5 MORTGAGE AND RENTAL PAYMENT VERIFICATION | All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current. | <p>Reduced requirements for mortgage and rental verification.</p> <p><i>The following requirements apply for mortgage and rental verifications:</i></p> <ul style="list-style-type: none"> • For <u>primary residence transactions</u>, only the mortgage/rental history on the borrower's primary residence is required. • For <u>second home/investment property transactions</u>, the mortgage/rental history on both the borrower's primary residence and the subject property are required (if applicable, i.e., refinance). • Mortgage/rental history for the primary and/or subject property must be current at time of application and closing. • If rental income is being used to qualify, the mortgage history(s) for the associated rental properties must be obtained. • Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into overall housing history rating and must be current. • PITIA for all REO must be documented for programs requiring a DTI calculation. • Mortgage histories for other REOs not reporting on credit are <u>not required</u>. |

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| 5.5.1 EXPANDED PRIME HOUSING VERIFICATION | See the GMFS Expanded Prime Matrix for max allowable mortgage and rental payment lates. | Section removed as allowable housing lates can be found on GMFS matrices. |
| 5.5.2 NON-PRIME HOUSING VERIFICATION | See the GMFS Non-Prime Matrix for max allowable mortgage and rental payment lates. | Section removed as allowable housing lates can be found on GMFS matrices. |
| 8.3.2 PERSONAL BANK STATEMENT DOCUMENTATION | The following documentation is required to utilize personal bank statements for income: <ul style="list-style-type: none"> • 12 months complete personal bank statements from the same account • 1099 in lieu of 12 months personal bank statements, if applicable • 2 months most recent business bank statements • Initial signed 1003 w/monthly income disclosed | Removed initial signed 1003 component from income analysis. <i>The following documentation is required to utilize Personal Bank Statements for income:</i> <ul style="list-style-type: none"> • 12 months complete personal bank statements from the same account • 1099 in lieu of 12 months personal bank statements, if applicable • 2 months most recent business bank statements |
| 8.3.3 ANALYZING THE PERSONAL BANK STATEMENTS | The following requirements apply when analyzing the personal bank statements: <ul style="list-style-type: none"> • 100% of deposits used for income and averaged over 12 months (as applicable). • Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc. • 100% of 1099 gross income + YTD bank statement income averaged over total number of applicable months (12 months minimum). • Transfers from a business account into a personal account are acceptable. • Transfers between personal accounts must be excluded. • Evidence of business receipt and expense activity is not permitted in personal bank accounts. | Removed language below for clarity. Formula for calculating personal bank statement income found in guidelines section 8.3.4. <i>The following requirements apply when analyzing the personal bank statements:</i> <ul style="list-style-type: none"> • Large and/or unusual deposits may require additional documentation including letter of explanation, third party documentation, etc. • Transfers from a business account into a personal account are acceptable. • Transfers between personal accounts must be excluded. • Evidence of business receipt and expense activity is not permitted in personal bank accounts. |

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| <p>8.3.4 CALCULATING QUALIFYING INCOME</p> | <p>Qualifying income using Personal Bank Statement Documentation is the lower of:</p> <ol style="list-style-type: none"> (1) the income indicated on the initial signed 1003, or (2) one of the following calculations: <ul style="list-style-type: none"> - Personal Bank Statement Average - 1099 Gross Income Calculation | <p>Removed initial signed 1003 component from income analysis.</p> <p><i>Qualifying income using Personal Bank Statement Documentation is either of the following calculations:</i></p> <ul style="list-style-type: none"> • <i>Personal Bank Statement Average</i> • <i>1099 Gross Income Calculation</i> |
| <p>8.4.2 BUSINESS BANK STATEMENT DOCUMENTATION</p> | <p>The following documentation is required to utilize business bank statements for income:</p> <ul style="list-style-type: none"> • 12 months complete business bank statements from the same account • 1099 in lieu of 12 months business bank statements, if applicable • Initial signed 1003 with monthly income disclosed • Required Expense Statement documentation applicable to Calculation Option • Verification borrower is minimum 50% owner of business | <p>Removed initial signed 1003 component from income analysis.</p> <p>Reduced minimum ownership percentage from 50% to 25% to utilize business bank statements.</p> <p><i>The following documentation is required to utilize business bank statements for income:</i></p> <ul style="list-style-type: none"> • <i>12 months complete business bank statements from the same account</i> • <i>1099 in lieu of 12 months business bank statements, if applicable</i> • <i>Required Expense Statement documentation applicable to Calculation Option</i> • <i>Verification borrower is minimum 25% owner of business</i> |
| <p>8.4.4.1 BUSINESS BANK STATEMENT OPTION 1: THIRD-PARTY PREPARED P&L STATEMENT</p> | <p>Qualifying Income is the lower of the following calculations:</p> <ul style="list-style-type: none"> • Monthly net income from the P&L • Income indicated on the initial signed 1003 <p>Required Expense Statement Documentation:</p> <ul style="list-style-type: none"> • P&L Statement covering either the same 1-year period as the bank statements or most recent complete calendar year; and • YTD P&L is required if the P&L is greater than 120 days old at time of closing. <p>The sum of disallowed deposits/transfers excluded from the bank statement total may be subtracted from the P&L gross revenue. Total eligible deposits may then be compared to the revised gross revenue amount for validation purposes. If validated within 20%, the lower of the revised monthly net income average from the P&L OR the income indicated on the initial signed 1003 may be used for qualifying income.</p> | <p>Removed initial signed 1003 component from income analysis.</p> <p><i>Required P&L Statement Documentation:</i></p> <ul style="list-style-type: none"> • <i>P&L Statement covering either the same 1-year period as the bank statements or most recent complete calendar year, and</i> • <i>YTD P&L if the P&L is greater than 120 days old at time of closing.</i> <p><i>The sum of disallowed deposits/transfers excluded from the bank statement total may be subtracted from the P&L gross revenue. Total eligible deposits may then be compared to the revised gross revenue amount for validation purposes. If validated within 20%, <u>the revised monthly net income average from the P&L may be used for qualifying income.</u></i></p> |

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| <p>8.4.4.2 BUSINESS BANK STATEMENT OPTION 2: THIRD-PARTY PREPARED EXPENSE STATEMENT</p> | <p>Qualifying Income is the lower of the following calculations:</p> <ul style="list-style-type: none"> • Monthly net income using the Expense Statement • Income indicated on the initial signed 1003 | <p>Removed initial signed 1003 component from income analysis.</p> <p><i>Net income from the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by 100 minus the expense percentage provided by CPA or tax preparer, multiplied by the borrower’s ownership percentage, and divided by 12 months.</i></p> |
| <p>8.4.4.3 BUSINESS BANK STATEMENT OPTION 3: FIXED EXPENSE RATIO OF 50%</p> | <p>Qualifying Income is the lower of the following calculations:</p> <ul style="list-style-type: none"> • Monthly net income using 50% of Total Eligible Deposits • Income indicated on the initial signed 1003 | <p>Removed initial signed 1003 component from income analysis.</p> <p><i>Net income is calculated by determining total eligible deposits per bank statements (minus any disallowed deposits) multiplied by 50% after accounting for the borrower’s ownership percentage and divided by 12 months.</i></p> |
| <p>10.3.5 GIFT FUNDS</p> | <p>Donor of gift funds must be a relative.</p> | <p>Expanded guidelines to allow additional donor relationships for gift funds.</p> <p><i>A gift can be provided by:</i></p> <ul style="list-style-type: none"> • <i>a relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship</i> • <i>a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent</i> |
| <p>10.3.10 LIKE-KIND EXCHANGE (1031 EXCHANGE)</p> | <p>Guidelines silent on Like-Kind/1031 Exchanges.</p> | <p><i>Like-Kind Exchanges Assets for the down payment from a “like-kind exchange,” also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.</i></p> |

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| <p>11.6.5 PROPERTY VALUES WITHIN MARKET AREA</p> | <p>If the appraisal indicates the property is located within a declining market, a 10% LTV reduction is required.</p> | <p>Reduced LTV reduction for declining market from 10% to 5%.</p> <p><i>If the appraisal indicates the property is located within a declining market, a <u>5% LTV reduction</u> is required.</i></p> |
| <p>13.2.3 SURVEY REQUIREMENTS</p> | <p>Guidelines silent on required survey states.</p> | <p>Updated guidelines to include list of states requiring a survey.</p> <p><i>The following states required a survey:</i></p> <ul style="list-style-type: none"> • Florida • Texas |
| <p>14.4.5 DSCR MORTGAGE AND RENTAL PAYMENT VERIFICATION</p> | <p>All mortgages and rental payments should be current at time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify account is current.</p> <p><u>Note</u>: Minimum application requirements include the disclosure of all borrower owned REO. All mortgage pay histories are to be verified; however, only PITIA from current residence and subject property must be documented. PITIA from additional REO is not required to be verified.</p> | <p>Reduced requirements for mortgage and rental verification.</p> <p><i>The following requirements apply for mortgage and rental verifications:</i></p> <ul style="list-style-type: none"> • <i>The mortgage/rental history on both the borrower's primary residence and the subject property are required (if applicable, i.e., refinance).</i> • <i>The mortgage/rental history for the primary and/or subject property must be current at time of application and closing.</i> • <i>Any derogatory mortgage history reporting on the credit report and/or provided within the loan file will be factored into the overall housing history rating and must be brought current.</i> • <i>Mortgage histories for other REOs not reporting on credit are <u>not required</u>.</i> • <i>Minimum application requirements include the disclosure of all borrower owned REO and associated mortgages reporting on credit. PITIA from the subject property must be documented. PITIA from additional REO is <u>not required</u> to be verified.</i> |