Underwriting and Documentation Guide

Washington Federal (WAFED) underwrites every loan request manually, which means that we rely on experienced underwriters and not a computer program to evaluate the credit risk of each loan application. Additionally, WAFED does not sell loans to the secondary market. This powerful combination provides you, the broker, with a unique opportunity to present your specific loan request knowing it will be underwritten using common sense as the primary guide.

This section of our website provides specific guidance on how to successfully package a loan request for Washington Federal’s consideration. If at any time you need more detailed underwriting guidance, please contact your local Account Executive or Wholesale Lending Department directly. We understand the value of providing a prompt and accurate response and pride ourselves on being easily accessible to answer all of your questions throughout the entire loan process.

Documentation Required for a Credit Decision

In order to provide a credit decision on a loan application, WAFED requires the broker to submit upfront all supporting documentation required to verify, clarify or substantiate the borrower’s credit, employment, income and assets according to WAFED documentation requirements.

Credit Approval Only: You can request a credit decision prior to having a property address identified and/or ordering the appraisal and preliminary title report. This application is referred to as a “Credit Approval Only”.

Property Address Not Identified: If a property address has not been identified with the application, we will accept a request for “Credit Approval Only”. Once a property address has been identified, the broker is required to provide all required lending disclosures to the borrower within 3 business days of being informed of a property address (unless they were already previously provided). Important Note: A fully executed purchase agreement is not required to identify a property; a property address is all that is required.

<table>
<thead>
<tr>
<th>Documentation Required in ALL Submission Packages</th>
<th>Purpose of Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>WAFED Form: Mortgage Broker Loan Submission Form fully executed by Broker Representative. Access under “Forms and Worksheets”.</td>
<td>Provides WAFED with needed instruction regarding source of broker compensation and certifies Loan Officer is licensed and nationally registered, etc.</td>
</tr>
<tr>
<td>WAFED Form: Broker’s Regulation Z Certification fully executed by Loan Officer. (Attached to Mortgage Broker Loan Submission Form listed above.)</td>
<td>Documents Loan Officer has complied with Anti-Steering requirements and can provide necessary documentation upon WAFED’s request.</td>
</tr>
<tr>
<td>Cover Letter from broker to explain any unusual characteristics with the loan application, compensating factors to consider, or exception requests.</td>
<td>Required to ease the disclosure and underwriting process.</td>
</tr>
<tr>
<td>Documentation to verify, clarify or substantiate the borrower’s credit, employment, income and assets as disclosed on the loan application. Provide documentation as required per WAFED Underwriting and Documentation Guidelines.</td>
<td>Required to document the borrower’s ability to repay the loan. If any documentation is missing per WAFED guidelines, the loan application will be suspended from underwriting until all required documentation has been provided.</td>
</tr>
<tr>
<td>“Blanket Certification of Copies” from broker: One certification letter provided on the broker's letterhead, referencing the transaction, signed and dated by the loan officer is acceptable.</td>
<td>If copies (rather than originals) of the borrower’s documentation are provided to WAFED, the broker is required to certify said copies are true and exact copies of the original documents.</td>
</tr>
<tr>
<td>Copy of Initial Loan Application signed and dated by the Loan Officer. If the application was taken “face-to-face”, it must also be signed and dated by borrower(s). If the borrower did not elect to complete the Government Monitoring Information on a “face-to-face” application, the Loan Officer is required to complete this information based on a visual observation.</td>
<td>Required to document the date of loan application and to ease the disclosure and underwriting process. Also provides WAFED with required information for government reporting purposes.</td>
</tr>
<tr>
<td>If an O/O or Second Home application and a property address has been identified, provide copies of all initial loan application disclosures required by law. Disclosure package is required to include the Loan Estimate (LE), Credit Score Information Notice, Notice to Home Loan Applicant, Third Party Service Providers List and Notice of Right to Receive an Appraisal.</td>
<td>Required to document lending disclosures have been provided timely and accurately.</td>
</tr>
<tr>
<td>WAFED Form: Continuation of Current Income completed and signed by each borrower.</td>
<td>Required to fulfill WAFED documentation requirements for Ability to Repay.</td>
</tr>
<tr>
<td>Final typed loan application: Must reflect the MOST CURRENT VERIFIED information for credit, income, and assets. (It is not required to be signed by Loan Officer and Borrower(s) until closing.)</td>
<td>Required to ease the disclosure and underwriting process.</td>
</tr>
<tr>
<td>FNMAE Form: Uniform Underwriting and Transmittal Summary</td>
<td>Required to ease the disclosure and underwriting process.</td>
</tr>
<tr>
<td>As applicable, these items are also required in addition to the items listed above:</td>
<td>Purpose of Documentation:</td>
</tr>
<tr>
<td>IRS Form: 4506T completed by borrower(s). Required from each borrower who is providing tax returns to support income used for qualifying purposes.</td>
<td>Used by WAFED to order transcripts from IRS to fulfill WAFED documentation requirements for Ability to Repay.</td>
</tr>
<tr>
<td>Fully executed purchase agreement and all addendums. Required on all purchase transactions with a property address identified.</td>
<td>Required to ease the disclosure, underwriting, and closing process.</td>
</tr>
<tr>
<td>WAFED Form: Cross Collateral Worksheet.</td>
<td>Required to ease the underwriting process for “Cross-Collateral Bridge Loan” application.</td>
</tr>
<tr>
<td>Appraisal Report and Preliminary Title Report. Required when requesting full loan approval and commitment.</td>
<td>Required to properly evaluate the collateral for satisfactory acceptance.</td>
</tr>
<tr>
<td>Custom Construction Documentation: Refer to “All-in-One Custom Construction Program Description” for a complete list of the additional documentation required.</td>
<td>Required to review builder and construction project for satisfactory acceptance.</td>
</tr>
</tbody>
</table>
**File Stacking Order**

Select *Stacking Order* to access the preferred order of the documents required in a Submission Package to WAFED.

**Allowable Age of Credit Documents**

The credit report and documentation provided to verify employment, income, and assets must be no more than 90 days old and the appraisal no more than 120 days old on the date the note is signed. If any documents exceed these age requirements, the broker must provide updated documentation for satisfactory review and approval prior to requesting preparation of loan documents for closing.

**Broker Compensation**

The broker’s compensation on a loan transaction is required to originate from one source only. A loan transaction that provides multiple sources of compensation to the broker is a violation of Regulation Z. WAFED provides the broker with two pricing options: Lender-Paid Option (LPO), meaning WAFED pays the broker’s compensation and Borrower-Paid Option (BPO), meaning the borrower pays the broker’s compensation. WAFED does not provide any rebate pricing options at this time.

**Lender-Paid Option (LPO):** WAFED is unique in how we price and disclose Lender-Paid transactions. For all Lender-Paid transactions, we simply charge the borrower an Origination Fee equal to the amount of the broker’s compensation and then we pay that same amount back to the broker as compensation at closing. For example, if the broker’s compensation is 1.25%, WAFED will charge the borrower 1.25% Origination Fee (plus all other customary fees that apply, such as for Manual Underwriting Fee, Payment Processing Fee, Custom Construction Fee, etc.) and we will pay the broker 1.25% compensation at closing.

The LPO compensation is required to match the current compensation percentage elected mortgage company in their Compensation Agreement with WAFED. This is the only compensation the broker can be paid; no other compensation can be charged by the broker, such as a Loan Processing Fee or Administration Fee, etc. If you are not sure what your company’s LPO compensation agreement is with WAFED, please contact your local Wholesale Lending Department.

**Borrower-Paid Option (BPO):** If the borrower is paying the broker compensation at closing, the broker can negotiate compensation on a transaction-by-transaction basis providing the total compensation does not exceed 2% of the loan amount per the “Lender-Mortgage Broker Agreement” with WAFED.

**Maximum Broker Compensation:** Regardless of the source, WAFED limits the broker to a maximum of 2% the loan amount in compensation.

**Minimum Broker Compensation:** WAFED does not have a minimum broker compensation requirement.

**LTV/CLTV and Subordinate Financing Guidelines**

These are general guidelines only. Refer to specific program description and current Wholesale Lending Rate and Fee Schedule for further guidance regarding LTV/CLTV requirements. Any “non-conforming” borrower and/or property qualifications may lower the maximum LTV/CLTV granted (or may disqualify the request entirely.)

<table>
<thead>
<tr>
<th>Type of Transaction</th>
<th>Calculation of LTV/CLTV</th>
<th>Maximum LTV/CLTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>LTV: Loan Amount divided by purchase price or current appraised value, whichever is</td>
<td>O/O 1-2 Units:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>95/90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>O/O 3-4 Units:</td>
</tr>
</tbody>
</table>
| Refinance of property owned 12 months or more | LTV: Loan Amount divided by current appraised value.  
CLTV: Determined by dividing the total sum of the items listed below by the lesser of the sales price or the appraised value:  
- Loan Amount  
- Outstanding Principal Balance of any closed-end subordinate lien.  
- Maximum Credit Line of any subordinate line of credit (whether drawn or not). | O/O 1-2 Units:  
- 90/90%; if no cash back.  
- 80/80%; if cash back.  
O/O 3-4 Units:  
- 80/90%; if no cash back.  
- 80/80%; if cash back.  
Second Home - 1 Unit:  
- 80/80%; if no cash back.  
- 80/80%; if cash back exception is considered.  
Investment Property 1-4 Units:  
- 70/70%; if no cash back.  
- 70/70%; if cash back.  
All CLAs over $700K considered case-by-case only. |
|---|---|---|
| Refinance of property owned less than 12 months (prior to date of loan application with the broker). | LTV/CLTV: Calculated the same as for a purchase transaction. | O/O 1-2 Units:  
- 90%; if no cash back.  
- 80%; if cash back.  
O/O 3-4 Units:  
- 80/90%; if no cash back.  
- 80/80%; if cash back.  
Second Home – 1 Unit:  
- 80/80%; if no cash back.  
- 80/80%; if cash back exception is considered.  
Investment Property 1-4 Units:  
- 70/70%; if no cash back.  
- 70/70%; if cash back.  |
| Custom Construction | LTV: Calculated by dividing the loan amount by the lesser of "Total Acquisition Costs" or current appraised value. "Total Acquisition Costs" defined as the total sum of the following: | Subordinate financing is typically not allowed on a Custom Construction transaction. Maximum LTV varies by loan amount and number of units. Refer to current Wholesale Lending Rate and Fee Schedule for current maximum LTV requirements. |
- If lot owned less than 12 months: Purchase price of lot or current appraised value of lot; whichever is less.
- If lot owned more than 12 months: Current appraised value of lot.
- Total cost to build per “Fixed Price” Construction Contract.
- If complete tear-down and rebuild or major remodel, refer to Custom Construction Program Description for how to calculate the LTV.

<table>
<thead>
<tr>
<th>O/O - 1 Unit:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 80% LTV</td>
</tr>
<tr>
<td>• LTV up to 85% may be considered as an exception only.</td>
</tr>
<tr>
<td>• 2 Units may be considered case-by-case.</td>
</tr>
<tr>
<td>• 3-4 Units are not eligible.</td>
</tr>
</tbody>
</table>

**Second Homes – 1 Unit**

- 80% LTV
- 2-4 Units are not eligible

**Investment Property:** Not eligible.

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**Subordinate Financing**

Subordinate liens must be recorded and clearly subordinate to WAFED’s first mortgage lien. Broker must disclose the existence of subordinate financing and the subordinate financing repayment terms to WAFED, the appraiser, and the mortgage insurer (if applicable). If a first mortgage is subject to subordinate financing, the broker must calculate the LTV and CLTV requirements for acceptable subordinate financing types.

**Acceptable Subordinate Financing Types**

- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Interest at a “market rate”.
- Minimum term of 60 months.
- All subordinate financing provided by the property seller is subject to satisfactory review and acceptance by WAFED as it may be considered a sales concession depending on the terms provided and, in general, will not be allowed on any new construction home.

Note: WAFED may accept terms outside of these guidelines when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.

**Re-Subordination Requirements for a Refinance Transaction**

If subordinate financing is left in place in connection with a new first mortgage loan with WAFED, execution and recordation of a re-subordination agreement is required.

**Defining Refinance Transactions Based on the Subordinate Lien**

If the refinance includes payoff of a loan used to purchase the subject property and no cash back is being provided other than to pay closing costs and prepaid items, WAFED will underwrite as a “No Cash Back” refinance transaction.

If the refinance includes payoff of a loan not used to purchase the subject property and the lien is less
than 12 months old, and NO cash back is being provided at closing beyond paying for closing costs and prepaid items, WAFED will underwrite as a “Cash Back” refinance transaction.

If the subordinate financing is being left in place, regardless of whether it was used to purchase the property or not, and the subordinate lien is 12 months or older, and NO cash back is being provided at closing beyond paying for closing costs and prepaid items, WAFED will underwrite as a ‘No Cash Back’ refinance transaction.

If the subordinate financing is being left in place, regardless of whether it was used to purchase the property or not, and it is less than 12 months old, and regardless of whether or not cash back is being provided beyond paying closing costs and prepaid items, WAFED will underwrite as a “Cash Back” refinance transaction.

**Cash Back Refinance Transactions**

A refinance that provides cash back to the borrower at closing is permissible under the following parameters:

- Borrower’s mid-credit score is 680 or higher, and
- Subject property has not been listed for sale by the borrower within 12 months of the date of the loan application with the broker, and
- Borrower has owned the subject property for a minimum of 12 months prior to the date of the loan application with the broker, or

If borrower has owned the property less than 12 months prior to the date of the loan application with the broker, borrower meets the following requirements:

- Loan meets LTV/CLTV requirements for cash back refinance transaction of property owned less than 12 months.
- Purchase of property was an arms-length transaction.
- Borrower can document satisfactory source of funds used to purchase the subject property.

**Title Seasoning Requirements**

**Purchases:** WAFED requires a minimum 6 months of “title seasoning” by the seller; meaning the seller must hold title to the subject property for a minimum of 6 months prior to the date of the borrower’s loan application with the broker. Exceptions can be made under specific parameters provided in the following link: *Exceptions to Title Seasoning Requirements*

**Refinances:** WAFED requires a minimum 12 months title seasoning by the borrower; meaning the borrower must hold title to the subject property for a minimum of 12 months prior to the date of the borrower’s loan application with the broker in order to calculate the LTV based on the current appraised value. If the borrower has held title to the property less than 12 months, the LTV is automatically calculated using the lesser of the prior sales price or the current appraised value. If the borrower can document improvements were made to the subject property since the time of purchase, the total sum of the documented paid improvements can be added to the purchase price prior to calculation of the LTV.

**Non-Arm’s Length Transactions**

Non-arm’s length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. WAFED allows non-arm’s length transactions
for the purchase of an owner occupied primary residence at a maximum LTV of 80%. Second Homes may be eligible on a case-by-case basis at a lower LTV. Non-arms length investment properties are not permitted.

**Minimum Borrower Contribution**

The following provides general guidance on the minimum borrower contribution required by WAFED on a purchase transaction. The borrower contribution is the total amount of cash the borrower is required to provide from his or her own verified funds not including a gift or subordinate financing.

<table>
<thead>
<tr>
<th>Type of Transaction</th>
<th>Minimum Borrower Contribution Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>O/O Purchase up to 80% LTV</td>
<td>0% of purchase price up to $700K maximum loan amount. All-gift down payment is permitted. Loan amounts over $700K are strictly case-by-case depending on LTV. The lower the LTV, the less borrower contribution may be required.</td>
</tr>
<tr>
<td>O/O Purchase over 80% LTV</td>
<td>5% of purchase price.</td>
</tr>
<tr>
<td>Second Home</td>
<td>20% of purchase price. No gift is typically permitted.</td>
</tr>
<tr>
<td>Investment Property</td>
<td>30% of purchase price. No gift is permitted.</td>
</tr>
</tbody>
</table>

**Purchase of Pre-foreclosure or Short-sale Property**

Borrowers often agree to pay additional fees or payments in connection with purchasing a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party.

Examples of additional fees or payments may include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees);
- Buyer discount fees;
- Payment to a subordinate lien holder;
- Payment of delinquent taxes or delinquent HOA fees.

And the following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees or payments and the additional necessary funds to complete the transaction must be documented.
- All parties must provide their written agreement of the final details of the transaction, which must include the additional fees or payments.
- Borrower (buyer) must document satisfactory source of funds to pay all additional fees and payments as agreed.
- Remember that the LE and Closing Disclosure must include all additional borrower fees, charges and payments as required and agreed.

**Occupancy Type Requirements**

The following lists the definition of the various occupancy types WAFED provides financing for:
**Owner-Occupied Primary Residence**

An Owner-Occupied Primary Residence is a property that the borrower occupies as his or her primary residence. WAFED requires the borrower to occupy the property within 60 days of closing.

**Second Home**

A Second Home is a property that the borrower occupies only part of the time; however, the property must be suitable for occupancy year round. WAFED does not allow a Second Home to be rented in any capacity or be utilized as a time-share. The property must “make sense” as a second home or vacation-type property for the borrower. For example, it would not make sense for a Second Home to be located 1 mile from the borrower’s primary residence.

**Investment Property**

An investment property is a property that the borrower does not occupy. Refer to “Rental Income” for details on how to calculate income on an investment property.

**Occupied by Family Member**

WAFED will provide financing for a borrower who wants to purchase a home for a family member to live in. For example, parents who want to purchase a home for their child to live in while attending college, or adult children who want to purchase a home for their parents to live in during their retirement years.

The following requirements apply:

- Second Home pricing applies. (Special Pricing is acceptable, if available.)
- Occupant family member is not required to be on the loan or in title.
- Maximum 1 loan per borrower.

**Escrows/Impounds**

Monthly impounds for payment of real estate taxes and hazard insurance can be waived upon request if LTV is 70% or less, subject to underwriting approval. An “Escrow Waiver Fee” applies. Refer to current Rate and Fee Schedule for current amount and include this fee in “Origination Charges” to WaFed for LE and disclosure purposes. If borrower wants to waive impound(s) for one or some of the items, but not all, the Escrow Waiver Fee will still apply.

Exceptions to waiver allowance:

- Monthly impounds for flood insurance is required.
- Impounds are required on all Manufactured Homes and Higher Priced Mortgage Loans regardless of LTV.

**General Borrower Requirements**

A “borrower” is any individual or joint applicant whose credit, income and assets are used to determine ability to qualify according to WAFED underwriting standards. A “Co-borrower” is a term used to describe any borrower other than the borrower whose name appears first on the loan application.

Each borrower is required to have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

WAFED must confirm each borrower’s identity prior to the extension of credit. One of the following forms of identification is acceptable for a U.S. Citizen:
• Driver’s License - issuing authority and number required; expiration and effective dates, if available.
• U.S. Government Issued Identification - State or Country issue and number required; expiration and effective date, if available.
• U.S. Military Issued Identification - number required; expiration date, if available.
• Passport - Country of issue and number required; expiration date, if available.
• State Identification - State of issue and number required; expiration, if available.

Non-U.S. Citizen Borrowers

A Permanent Resident Alien is a non-U.S. Citizen who has legal permission to live in the United States permanently. WAFED will provide financing to Non-U.S. Citizen borrowers with permanent residency status in the U.S. under the same terms that are available to a U.S. Citizen. The acceptable form of identification for this borrower-type is documentation of a Resident Alien Identification Number and the expiration date, if available.

If a Non-U.S. Citizen borrower does NOT have permanent residency status in the U.S., WAFED-Retail will consider financing on a case-by-case basis via the Foreign National Program. Please note that this program has currently been suspended through WAFED-Wholesale until further notice, with the exception of the following occupancy and borrower-types:
• Owner-Occupied or Second Home for Canadian National;
• Owner-Occupied for Non-Canadian Foreign National Borrower who has secured employment with a well-known and reputable employer in the local lending area and who has sponsored the borrower for a work visa:
  • Must be common knowledge the employer recruits employees;
  • Provide acceptable documentation for employers sponsorship of borrower’s work-visa;
  • LTV limited to 80%;
  • A rate-adjustment will typically apply for this borrower-type for lack of credit/income history in U.S (typically .25%).

Non-Occupant Co-signers or Guarantors

Non-Occupant Co-Signers or Guarantors are credit applicants who have joint liability with the borrower(s) occupying the subject property, but they themselves will not be occupying. Under this scenario, the occupant borrower nearly qualifies independently, but due to some income or credit weakness, requires the added strength of a co-signer or guarantor.

The following parameters apply when there is a non-occupant co-signer or guarantor:
• The non-occupant co-signer or guarantor is required to be an immediate family member of the occupant borrower.
• The total “debt-to-income ratio” for occupant borrower alone is required to be 60% or less.
• If LTV is over 80%, the occupant borrower contribution is required to be a minimum of 5% of sales price.
• A non-occupant co-signer may or may not assume ownership of the subject property with the owner-occupant borrower(s); it is their choice.
• Maximum loan amount is limited to $600,000. Exceptions will be considered case-by-case with strong compensating factors.

If the occupant borrower is determined to rely too heavily on the non-occupant co-signer or guarantor in order to qualify, for example the DTI on the occupant borrower is above 60, the loan request will no longer be viewed as an owner-occupied transaction. In this circumstance, Second Home pricing will apply and LTV will be limited to 80% maximum.

**Trusts**

WAFED will provide financing to trusts under the following parameters:

- The trust is required to be established by one or more natural persons. *(A trust established solely or in part by an entity, such as an LLC, is an exception and will be reviewed case-by-case only.)*

- Provide a full copy of the trust for satisfactory review with the Submission Package. Trust must provide the trustees clear ability to obtain mortgage financing (encumber).

- The trustees are required to sign a personal guarantee agreement at closing and assume personal liability for the mortgage loan (in addition to the trust assuming liability). If the trustees will be occupying the property, they will be required to sign the note at closing in lieu of a personal guarantee agreement.

- The trustees will be qualified as if they were the borrower. Provide full documentation credit packages for each of the trustees.

- Irrevocable Trusts require +.25% rate adjustment.

- The Title Company is required to review and approve all trust documentation and insure clear title.

**Multiple Properties Financed for One Borrower**

WAFED-Wholesale currently limits the number of mortgage loans financed with one borrower to nine (9), including loans where borrower is obligated to other lenders and loans where borrower is a personal guarantor or whether ownership is joint or total. However, the greater the number of loans we have in any single development, especially if the concentration is with a single borrower, the greater our risk. We may need to mitigate the additional risk of financing multiple loans in a single development by requiring a lower LTV, by charging a higher interest rate than the standard terms on our rate schedule, or by choosing to decline the loan request all together. We will consider each request on a case-by-case basis.

**Limit to the Number of Financed Properties**

An Owner-Occupied borrower is not limited to the number of financed properties they can have. A Non-Owner Occupied borrower is limited to ten (10) financed properties, including loans where borrower is obligated to other lenders and loans where borrower is a personal guarantor or whether ownership is joint or total. A borrower may have (a total of) more than 10 loans on said properties.

**Credit Guidelines**

When evaluating a borrower’s ability to pay, the credit history is one of several risk factors considered during the manual underwriting qualification process. WAFED reviews each borrower’s credit history and payment patterns individually.

Traditional credit documentation is the preferred method of documenting a borrower’s credit history and will allow for the most liberal lending terms. For borrower’s that cannot meet the traditional credit
documentation standards, non-traditional credit documentation will be reviewed case-by-case.

**Traditional Credit Documentation**

To document credit in the preferred manner, provide a current “in-file tri-merge” credit report for each borrower. A joint credit report is acceptable. To give the most strength, a minimum 24-month credit history is required; however, a borrower with less than a 24-month credit history will still be considered.

The credit report is required to provide the following minimum information:

- Borrower's name and social security number
- A 24-month address and employment history
- All inquiries for new credit within the last 90 days
- For each account, identify the date opened, highest credit amount, status of account, monthly payment, unpaid balance and payment history.
- Access and name three national sources for borrower’s credit information. The three most common are: Transunion (TU), Experian (XP), and Equifax (EF).
- All credit and legal information that is not considered obsolete under the “Fair Credit Reporting Act”, such as bankruptcies, lawsuits, judgments, foreclosures, and tax liens that have occurred within the past seven years.
- Three credit scores (commonly known as FICO scores) for each borrower.
- Fraud Alerts
- Report must be dated within 90 days of closing (the date the note is to be signed).

**Verification of Mortgage and Rent**

If the credit report verifies the borrower’s last 12 months mortgage and/or rent history, the monthly payment and current principal balance, a separate verification is not required. If a separate verification is required, one of the following will suffice:

- A standard verification of mortgage from the lender; must include outstanding principal balance, monthly payment owed, payment history and current status of loan.
- Copy of note and 12 months of cancelled checks.

**Credit Inquiries**

The borrower is required to explain all credit inquiries within last 90 days as reflected on the credit report.

**Credit Letter of Explanation**

WAFED manually underwrites each loan request, which means the borrower has an opportunity to explain any late payments or other derogatory items that appear on the credit report and the underwriter will consider their explanation with the overall request.

The borrower will be required to provide a letter of explanation for these items:

- All late payments reflected within the last 3 years with the exception of an isolated minor late payment or two.
- All major derogatory items regardless of the age; tax liens, judgments, charged-off accounts, late payments on mortgage, bankruptcy, garnishments, foreclosure proceedings, deed-in-lieu, short-sale, outstanding collections, payments past-due, etc.
• All inquiries for credit within 90 days.

Credit Score and Adjusters to Interest Rate
The Wholesale Lending Rate and Fee Schedule includes a matrix for all rate adjustments that apply for a specific credit score depending on the requested LTV. Please review to see if your specific request requires a rate adjustment for credit.

All loan applications should include the rate adjustment for credit as required by the matrix until the loan request has been fully underwritten. The underwriter may choose not to apply the adjustment depending on the reason for the derogatory credit, compensating factors that may exist, and the borrower’s overall financial strength.

Bankruptcy - Chapter 7 or 11
A period of 4 years since the date of discharge is required unless there has been extenuating circumstances documented, and then 2-years is permissible.

• If the date of discharge was 2-4 years ago, the LTV is limited to 80% (or a lower maximum as may be required by loan amount or loan program).

• Provide all bankruptcy papers for review.

• A letter from the borrower is required to explain the circumstances of the bankruptcy.

• Borrower must document credit has been re-established since the discharge date and there have been no late payments since.

Bankruptcy - Chapter 13
A period of 2 years since the date of discharge is required, which recognizes the borrower has met a portion of the typical 4-year waiting period by making timely payments under the Chapter 13 plan.

• If the date of discharge was 2-4 years ago, the LTV is limited to 80% (or a lower maximum as may be required by loan amount or loan program).

• Provide all bankruptcy papers for review.

• A letter from the borrower is required to explain the circumstances of the bankruptcy.

• Borrower must document credit has been re-established since the discharge date and there have been no late payments since.

Consumer Credit Counseling Plans
All credit-counseling plans must be closed or completed before date of loan application.

Foreclosure, Deed-in-Lieu and Short-Sale
A 5-year waiting period is required before consideration.
Non-Traditional Credit Documentation

If a borrower cannot document a well-established credit history with a traditional credit report, WAFED will consider non-traditional forms of credit verification case-by-case. Some examples of non-traditional credit verification include the following:

Provide a minimum of 12 months canceled checks to document:

- Monthly rent payments
- Monthly cell phone payments
- Payment of utilities
- Payment of car insurance

Income Guidelines

When determining a borrower’s ability to pay, we review the borrower’s income earned over the last 2 years (or more) in order to determine the stability of that income.

*How much is the borrower paid and how often? Is the income new? Is income increasing? Is the borrower job-hopping? Is the income consistent or are there large fluctuations up or down?* These are examples of some of the questions the underwriter will be asking when they review the borrower’s income documentation for qualification purposes.

4506-T: All borrowers who provide tax returns to document income for qualifying purposes are required to complete and provide an IRS Form 4506-T. Prior to providing loan documents, WAFED will order transcripts directly from the IRS to verify the tax returns borrower provided were filed with the IRS and that any federal income taxes owing have been properly paid.

Continuation of Current Income Certification

WAFED requires each borrower to certify their current income is expected to continue for at least 3 years or, if a change in income is expected, to explain how it will affect their ability to repay the loan. A WAFED form is provided for this purpose and is available by accessing “Loan Submission Forms” from your state’s home page.

Verbal Verification of Employment:

WAFED will conduct a verbal verification of employment at time of closing on every employed borrower. If the broker is aware of any changes to the borrower’s employment, income source or financial situation in general, the broker is required to inform WAFED immediately up to the point of closing as the changes may affect the borrower’s ability to qualify for the loan.

Tax Returns: When are they required?

Copies of most recent 2-years filed Federal Income Tax Returns, signed and dated by the borrower, are required under any of the following circumstances:

- Borrower is self-employed as a sole proprietor or has a 25% or greater ownership interest in a partnership or corporation. *Note: Additional income documentation is required for a self-employed borrower. Please refer to “Self-Employed Borrower” section for complete documentation requirements for the self-employed borrower.*
- Borrower earns 25% or more of their total income from commissions.
• Borrower employed by a family member.
• Borrower is receiving rental income from an investment property.
• Borrower receives income from periodic employment, such as a contract employee or a tradesperson.
• Borrower receives other miscellaneous non-employment income such as retirement, interest, dividends, royalties, trust, etc.
• Paystubs and/or W-2’s provided are hand-written.
• Borrower is using foreign income to qualify.

Verification of Salary
Provide 2 most recent paystubs and 2 most recent years W-2’s:
• Information must be complete and documents must clearly identify the name of the employer and the borrower as an employee.
• If documents provided are hand-written; 2 most recent years of filed Federal Income Tax Returns are also required to substantiate.
• If copies of documents are provided in the Submission Package, broker is required to certify copies are true copies of the originals. A Blanket Certification Letter is acceptable.
• Paystubs downloaded from the Internet are acceptable.
• If income is reflecting a decline, explain reason for the decrease.

Written Verification of Employment
A written verification of employment obtained by the broker directly from the employer is acceptable providing proper written authorization from the borrower is obtained; such as a signature on a blanket authorization form.

However, a written verification of employment may not be sufficient as the only documentation for income. Typically, paystubs and W-2’s will also be required to substantiate income.

A written verification of employment is permissible to clarify a borrower’s income. For example, if a borrower recently took a temporary unpaid leave from employment to have a baby, the broker may need to verify the borrower’s time off directly with the employer. This would document the reason for borrower’s decrease in earnings year-to-date; so that the current higher income for the borrower could be used.

Verification from a third party verification-of-employment vendor is permissible.

Gaps in Employment
All gaps in a borrower’s 2-year employment history are required to be explained by the borrower in writing (time that the borrower is not employed or earning income). An important part of verifying a borrower’s ability to repay the loan is to determine to the best of our ability that the borrower’s income is stable and ongoing. If a borrower has a "gap" in his or her 2-year employment history, this may or may not be a sign that income is unstable. If a borrower’s income is determined to be unstable, either a lower income will be used or the income will not be used at all other than as a compensating factor.

Commission Income
A 2-year average of commission income is preferred; however, a 12-24 month average may be permitted
case-by-case, depending on the overall financial strength of the borrower:

- Verify with 2 most recent paystubs and 2 most recent years W-2s.
- If the borrower earns more than 25% of earnings from commissions, 2 most recent years of filed Federal Income Tax Returns are also required in order to substantiate.
- Commission income must be level or increasing. If not, a lower income will be used to compensate for the decline.
- Subtract any non-reimbursed business expenses (commonly referred to as “2106 expenses”) from income for qualification purposes.

**Non-Taxable Income**

If the income is verified to be non-taxable, and the non-taxable status is likely to continue, the income may be adjusted by adding 15% of the non-taxable amount. For example, if borrower receives $2,000 per month in non-taxable income, add 15% of $2,000 or $300. Total income for qualifying purposes is $2,300.

**Bonus Income**

A 2-year average of bonus income, providing it is verified as paid quarterly or more often, can be used for qualifying:

- If bonus income is paid on an annual basis only, it cannot be used to qualify unless the borrower can document sufficient cash reserves after closing to offset; sufficient for the borrower to reasonably supplement salary when needed.
- Verify amount of bonus income; how often it is paid; and the likelihood of its continuance; by obtaining a written verification directly from the employer (or equivalent).
- The bonus income must be level or increasing. If not, a lower income will be used to compensate for the decline.

**Overtime, Part-Time and Second Job Income**

A 2-year average is required. A 12-24 month average may be permissible case-by-case, depending on the overall risk associated with the loan request:

- Verify income with two most recent paystubs and two most recent years W-2’s.
- The income must be level or increasing. If not, a lower income will be used to compensate for the decline.
- The underwriter may require a written verification or letter of explanation from the employer to further substantiate or clarify this income.

**Seasonal Income**

All income earned on a seasonal basis is considered case-by-case only. Typically this income will be used as a compensating factor only. If the income is a substantial amount that the borrower clearly lives on for the remainder of the year; as would be the case for a commercial fisherman, for example, a 2-year average will be considered providing borrower has assets remaining after closing to support the income required. If seasonal unemployment compensation is clearly earned due to seasonal layoffs and is reported on the borrower’s filed Federal Income Tax Returns, a 2-year average of unemployment income may also be considered, but, again, will likely be used a compensating factor only.
Military Income

Military personnel’s income may consist of different types of pay in addition to base pay. Hazard pay, rations, clothing allowance, housing allowance and proficiency pay are permissible sources of income providing you can verify in writing with the employer that the income will continue to be received in the future.

VA Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable:

- Verify directly with VA that benefits will be ongoing.
- Do not use education benefits as these are provided to offset education expenses.
- If benefits are documented to be tax-free you may gross up the benefit amount 15% (add 15% of the benefit amount to income).

Retirement Income

Retirement income is required to be verified in writing by the former employer, or from Federal Income Tax Returns and 1099Rs. If any income from retirement, such as employer pensions, will cease in the near future, this income will not be used to qualify.

Social Security

Not all Social Security benefits are for retirement-aged recipients, therefore documented continuation is required:

- Income may be used if verified with the Social Security Award Letter or on Federal Income Tax Returns.
- Bank statements reflecting the automatic deposit of Social Security benefits are required.
- If benefits are documented to be tax-free you may gross-up 15% (meaning add 15% of the benefit amount to borrower’s income).

Asset-Based Income

A borrower that does not qualify using traditional sources of income alone, but has substantial cash assets available to supplement income, may be considered for financing under the parameters described in the “Asset-Based Loan” program. Please refer to the specific program description for complete details on how to qualify the borrower.

Rental Income

Rental income is an acceptable source of stable income providing the borrower can reasonably document that the income is likely to continue. Documentation required to verify the stability of this income can vary. Generally, rental income is reported on Schedule E of borrowers personal tax returns and a 24-month average is calculated to arrive at the most stable rental income amount. However, a borrower could have recently purchased a rental property, have had a gap in the rental income due to renovating the property, or had an increase in rent since the most recent tax-filing that they want used to qualify, etc., so in these cases an alternative method of calculating the rental income may be required.

General Documentation Requirements for Rental Income
For 3 or less rental properties:

- Two most recent years of filed personal tax returns documenting a minimum 12-month rental history on Schedule E; or
- Copy of current or new lease agreement (whether or not there is a 12-month rental history).

For 4 or more rental properties:

- Two most recent years of filed personal tax returns documenting a minimum 12-month rental history on Schedule E;
- If property was acquired or put into service during the most recent tax-filing year, a copy of current lease agreement is also required.

For all rental properties:

- At underwriter’s discretion, further documentation may be appropriate to support rental income, such as copies of canceled checks, bank statements, or equivalent.

**Rental Income from Subject Property**

This income may be used under the following circumstances:

- Borrower occupies one of the units in a 2-4 unit principal residence, or
- Subject property is a 1-4 unit investment property.

**Rental Income from a Property that is Not the Subject Property**

There are no restrictions to the type of property for this rental income. For example, it is acceptable to use rental income from an apartment building or a commercial property providing the income is likely to continue.

**Rental Income from Borrower’s Primary Residence or Second Home**

Generally, this income will not be used to qualify whether or not it is derived from a SFR or from one unit occupied in a multi-unit property. For example, if the borrower’s principal residence is one of the units located in a two-unit property, rental income will not be used for the unit the borrower is occupying. (However, rental income from the other unit could be considered.) Rarely, roommate income or income from a boarder may be considered at underwriter’s discretion, but only if a minimum 12-month rental income history is documented on borrowers’ most recently filed personal tax return. A lease agreement alone is not considered adequate documentation for this income.

**Two Methods of Calculating Rental Income**

There are two methods used to calculate rental income depending on the length of time the property has been rented and the total number of rental properties the borrower owns: Schedule E Calculation method or Lease Agreement Calculation method. Refer above to “General Documentation Requirements for Rental Income” for details on which method to use for your borrower. Sometimes a combination of methods will be required.

Generally, if the two years filed tax returns do not document a minimum 12-month rental income history (because the property was purchased or put into service during or after the most recent tax filing year), rental income is required to be calculated using the Lease Agreement Calculation method.

**Schedule E Calculation of Rental Income**

To use this method to calculate rental income, a minimum 12-month rental income history on Schedule E
of two most recent years of filed personal tax returns is required. (Case-by-case and at underwriter’s discretion, it may be used if less than a 12-month history is documented.)

Calculate income from Schedule E as follows:

1. Take total amount for Gross Rents Received per Schedule E (for both years.)
2. Subtract 25% for expenses (Do not take expenses shown on Schedule E.)
3. Subtract total PITI expense for both years (This amount is NOT found on Schedule E. Typically it will be monthly PITI multiplied by 24. You will need to calculate monthly payment plus taxes and insurance, etc.)
4. Divide total amount (of 1-3) by 24 (months). This amount equals the average monthly rental income for property.

If the property was in service for less than 24 months, calculate #3 and #4 using the lesser number of months, not 24. For example, if property was in service for 18 months of the two tax-filing years, for #3 you would subtract total of monthly PITI multiplied by 18 (not 24), and for #4 you would divide by 18 (not 24).

If less than 12-month rental history is reflected on tax returns, a copy of the Lease Agreement is required and Lease Agreement Calculation method is required.

**Exception to Schedule E Calculation Method**

For a well-seasoned investor with good equity position in rental properties, rental income may be calculated using Gross Rents from Schedule E, less (-) total expenses from Schedule E, plus (+) Depreciation expense from Schedule E, divided (+) by number of months property was in service during the two tax-filing years. Note that this calculation exception does not consider the expense for principal paid on any loan against the property (only interest) and therefore will only be reserved for a financially strong borrower at underwriter’s discretion.

**Lease Agreement Calculation of Rental Income**

A copy of the lease agreement for a rental property is required in the following circumstances:

1. Purchase of new rental property; or
2. Refinance of a property that was purchased during or after the last tax-filing year (so that a minimum 12 month rental income history cannot be documented); or
3. Refinance of a property that had a significant interruption in generating rental income, for example, due to a major repair or remodel.

Calculate monthly rental income from Lease Agreement as follows:

Take gross monthly rent per lease agreement, less (-) 25% for vacancy and maintenance expenses, less (-) total monthly payment including taxes and insurance (PITI).

**Rental Income on Exit Home**

If a borrower is purchasing a new primary residence and will be retaining their current home as a rental, rental income on the exit property may be used case-by-case at underwriter’s discretion depending on the following:

- Equity position in current home; minimum 25% required.
- Verification of market rent for current home; marketability of property.
• Cash reserves after closing; ability to cover vacancies, expenses, etc.
• Landlord experience; not required, but is considered.

Verify equity position and market rent for exit home through zillow.com, trulia.com, a tax assessment statement, an appraisal, or other equivalent documentation.

Calculate rental income from exit home using the Lease Agreement Calculation method.

Depending on the borrower’s overall financial strength, the underwriter may require additional documentation to verify with more certainty the property has been rented prior to closing, such as a copy of the lease agreement and proof that the new tenant’s deposit has been received.

**How to Treat Rental Income**

• If total amount of rental income for all rental properties is a positive amount, add this to borrower’s income as “rental income”.
• If total amount of rental income for all rentals is a negative amount, add this to borrower’s monthly liabilities as “negative rent”.
• If the rental property is the subject property, calculate rental income separately from all other rental properties borrower owns. If the net rental income for subject property is a positive amount, add this amount to borrower’s income as “rental income”. If the net rental income for subject property is a negative amount, add this amount to borrower’s monthly liabilities as “negative rent”.

**How to Calculate Underlying Mortgage Payments for Qualification**

Depending on the type of mortgage loan the borrower has obtained, there is potential risk that the interest rate and/or monthly payment could increase in the near future resulting in higher monthly expenses, which may affect the borrower’s ability to repay. For example, a loan with an adjustable-rate, negative-amortization, or interest-only would all carry risk for potential payment increase. If there is little-to-no equity in the rental property in combination with these negative loan characteristics, the borrower’s financial risk increases further.

For these reasons, the underwriter may require additional documentation, such as a copy of the note, to verify the terms of one or all of the underlying mortgage loans in order to assess the risk properly in the overall underwriting analysis.

If a mortgage loan includes any of these described negative loan characteristics, a higher monthly payment than what is currently required will be used to qualify the borrower to offset the risk of payment increase when these loan-types recast. For example, if the loan is interest-only, the underwriter may use a fully amortized payment at a higher interest rate to qualify, or if the loan is an ARM, the underwriter may use the highest interest rate possible during the life of the loan to calculate the payment used to qualify.

**Self-Employed Borrower**

It is common for a self-employed borrower to experience increases and decreases in income throughout the year. In order to determine a stable amount of income to use for qualifying purposes, a 2-year average of income based on filed Federal Income Tax Returns is required.

The following lists the documentation required for a self-employed borrower:

• Provide copies of most recent 2-years FILED personal *Federal Income Tax Returns* and all supporting schedules; signed and dated by the borrower.
• If the borrower extended the filing of personal *Federal Income Tax Return*, provide copy of borrower’s
filed extension. Note that 2-years filed tax returns prior to the extension are also required.

- If borrower files a Schedule E with personal tax returns, provide copies of supporting K-1s for all businesses.
- If borrower has 25% or more ownership in a partnership and/or corporation, (the K-1 will indicate borrower’s percentage of ownership in the business.) provide most recent 2-years filed Federal Income Tax Returns for the business and all supporting schedules; signed and dated by borrower.
- Provide current year-to-date Profit and Loss Statement (P&L) for the business signed and dated by the borrower. A P&L provides the breakdown of gross income, expenses, and net income or loss for the business over a specific period of time. A P&L is also called an Income Statement or Statement of Revenue and Expenses.
- Provide a current Balance Sheet for the business signed and dated by the borrower. A balance sheet is the statement of assets, liabilities and shareholders’ equity for the business.
- Income must be level or increasing. If income is declining, average over last 12 months only and provide a written explanation from the borrower for the decline.
- Broker to provide a completed Schedule Analysis Method form (or equivalent) to explain how borrower’s income was calculated.

Newly Self-Employed Borrower

A borrower who has been self-employed less than 2-years is considered newly self-employed. WAFED will consider income for a newly self-employed borrower strictly case-by-case under the following general guidelines:

- Borrower must exhibit strong historical income in the same line of work over a minimum of 24 months.
- A recently earned university degree in the same line of work may be permissible case-by-case in lieu of work history, for example, a new physician or lawyer.
- Line of work and skill-set must be in demand in current economy.
- Amount of income used to qualify should be consistent with borrower’s historical income average.
- If borrower recently purchased the business, provide all purchase agreements and financial statements for the business received from seller at time of sale, plus documentation of any additional financing the borrower may have obtained to execute the purchase.
- LTV is generally limited to 80%.

Depreciation

When calculating a borrower’s income derived from real estate or from a business:

- You may “add back” (or not include) the expense for real estate depreciation only.
- Adding back depreciation expense for equipment, automobiles, etc. is NOT permissible.
- You MAY add back the “179 Expense” reflected on borrower’s Schedule E.

Capital Gains Income

Capital Gains income is income derived from the sale of assets. Generally, this income is not used at all unless, in the rare circumstance, it can be verified to be stable and ongoing. This requires verification that sufficient assets will remain after closing to sustain the income over the long term. For example, if the...
income is from the sale of property, the borrower would need to verify substantial equity in a real estate portfolio to sustain income from the sale of property over the long term. To consider the use of Capital Gains income, provide the most recent 2-3 years of filed Federal Income Tax Returns for review.

**Interest and Dividend Income**

A 24-month average of interest and dividend income based on most recent 2-years filed Federal Income Tax Returns can be considered under the following parameters:

- Income verified is level or increasing. If income has declined, a lower income will be used to qualify.
- Verified assets remaining after closing are sufficient to sustain the income.

**Alimony and Child Support**

To document income from alimony and child support, provide a copy of the divorce decree or separation agreement outlining the amount of the borrower's award payment and the time period it will be received. Income can be used under the following parameters:

- Verify it will continue for a minimum of 3 years or more.
- Verify receipt of timely award payments for a minimum of 12 months with copies of bank statements or equivalent. Case by case, verification of 6-12 months may be acceptable.
- If the amount of award payment represents a high percentage of the borrower’s total gross income, strong compensating factors are required to offset, such as strong cash reserves or a low LTV.
- If the amount of the award is substantial enough and the remaining time it will be received short enough that it is questionable how the borrower can replace the income when the time expires, compensating factors will be required to offset, such as strong cash reserves or a low LTV.

**Temporary Leave from Employment**

If a borrower has taken a temporary leave from employment, such as for family illness or maternity leave, the following steps should be taken to verify income appropriately:

- Verify the “terms of leave” directly with the employer (or acceptable third-party vendor for verification of employment), including agreed upon return date, return position, return pay, and how much the borrower will be paid during the leave period.
- Provide written confirmation from borrower of intent to return to work and the agreed upon date of return.
- Borrower must document sufficient cash reserves to manage any financial shortfall during the leave period.
- WAFED will conduct a verbal verification of employment to confirm the temporary leave.

**Disability Income**

Disability income can be used under the following parameters:

- Verify the amount of disability by obtaining a copy of the borrower’s disability policy or award statement.
- Verify the borrower’s current eligibility for disability income by obtaining a statement from the benefit’s payer; the insurance company, employer or other qualified disinterested third party.
• Verify income will continue to be ongoing.
• For short-term disability, refer to “Temporary Leave from Employment”.

**Contract and Note Receivable Income**

If a borrower receives income from a contract or note, the following information is required:

• Document the amount of income and verify it will continue for a minimum of 3 years by providing a copy of the contract or note.
• Document income has been received regularly for a minimum of 12 months by providing either filed personal Federal Income Tax Return(s) reflecting the income received on Schedule B or copies of bank statements reflecting consistent and timely deposits.
• If the contract or note was executed less than 12 months ago, the income will be considered case-by-case only depending on the amount, the percentage of overall income for qualifying that it represents, and the amount of the payer’s down payment (motivation to continue paying). Typically, this income will only be used as a compensating factor for higher ratios, however.

**Trust Income**

Trust income can be used case-by-case under the following parameters:

• Document trust income has been consistently received by borrower for a minimum of 24-months. Bank statements, cancelled checks, deposit slips or tax returns are acceptable forms of documentation.
• Verify that the income has a strong likelihood of continuing by providing a copy of the trust and any other required satisfactory documentation to verify amount of trust, frequency of distribution, and duration of payments.
• If additional funds from the trust are being used for some or all of the down payment, document that the withdrawal of funds will not negatively affect the borrower’s trust income.

**Tip Income**

If the borrower has earned tip income for a minimum of 2 years, a 24-month average of tip income can be used providing it is believed to continue and the income is level or increasing.

If the borrower has earned tip income for 12-24 months, a 12-month average can be used providing it is believed to continue and the income is level or increasing.

To document tip income, provide the normally required income documentation.

**Home Ownership Subsidies**

If a consumer is receiving income in the form of subsidies from a public housing agency (PHA), this income may be used:

• Even though continuation of the home ownership voucher subsidy beyond the first year is subject to Congressional appropriation, for purposes of underwriting, the subsidy will be assumed to continue for at least three years.
• If the consumer is receiving the subsidy directly, the amount will be treated as income (subsidy amount added to borrower’s income) and can be grossed-up 15% (and add 15% of subsidy amount to income).
If the consumer is NOT receiving the subsidy directly, the amount of the subsidy can be deducted from the monthly mortgage payment before calculating the borrower’s debt-to-income ratio (rather than adding the amount to income).

**Unemployment Income**

Unemployment income is not permissible to use unless it is directly related to a documented history of seasonal employment. A 24-month history of receipt is required for consideration. Provide most recent 2-years of filed personal Federal Income Tax Returns to document both the seasonal employment and the unemployment income.

**Verification of Assets**

Evaluating the borrower’s assets is another important part of the underwriting process. If the borrower is required to provide funds to close a transaction, such as for a purchase, satisfactory verification of the source of those funds are required in order to document the borrower’s required contribution. Additionally, depending on the specific characteristics of the transaction, it may also be required to verify the borrower has sufficient cash reserves available after closing.

**What are Cash Reserves?**

Cash reserves are those assets that are available to the borrower after closing that are cash or can be easily converted to cash.

Acceptable sources of cash reserves include:

- Checking, savings, money market accounts, and certificates of deposit
- Stocks, bonds and mutual funds *(Use 70% of current value.)*
- Cash value of a vested life insurance policy
- Vested stock options or grants *(Use 70% of current NET value after cost.)*
- Vested portion of retirement account that is verified to be accessible to borrower without terminating employment. *(Use 70% of value.)*

Unacceptable sources of cash reserves include:

- Unvested stock options or grants
- Unvested retirement
- Loan proceeds, such as from a cash back refinance transaction
- Gift from interested party to the transaction
- Vested retirement account that borrower is unable to access unless employment is terminated.
- Margined portion of stock investment portfolio (A margin account is a loan against stock.)

**Cash Reserve Requirements**

Cash reserve requirements vary depending on the specific characteristics of the transaction, such as loan to value, ratios, loan program, occupancy type, increase to housing expense, monthly residual income, total obligations, credit history etc.

The following table provides a general guide on cash reserve requirements for a Single Family Residence (SFR) transaction. The Underwriter may require more or less depending on the overall strength of the transaction.
borrower and compensating factors that may exist. For example, less may be required on a 90% LTV
transaction if the borrower has substantial equity in current home and strong monthly residual income.

<table>
<thead>
<tr>
<th>SFR Transaction</th>
<th>Cash Reserves Required After Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-in-One Custom Construction</td>
<td>Minimum 10% of Fixed-Price Construction Contract Amount is required in cash reserves after closing.</td>
</tr>
<tr>
<td></td>
<td>Note: If borrower cannot demonstrate sufficient cash reserves available to fund potential cost overruns, etc. a 10% contingency fund will automatically be required.</td>
</tr>
<tr>
<td>Cross-Collateral Bridge Loan</td>
<td>Borrower must have sufficient cash reserves available to fund housing expense for 2 properties (subject property and exiting primary residence) until current home is sold and required principal payment reduction is completed.</td>
</tr>
<tr>
<td>Over 80% LTV</td>
<td>3 months PITI</td>
</tr>
<tr>
<td>Second Home</td>
<td>3 months PITI for both primary and second home</td>
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<tr>
<td>Investment Property</td>
<td>3 months PITI for each financed property</td>
</tr>
<tr>
<td>2-4 Family</td>
<td>3 months PITI for subject and each financed property</td>
</tr>
</tbody>
</table>

Verification of Checking, Savings and Investment Portfolio Accounts

To document a borrower’s checking, savings and investment portfolio accounts (stocks, bonds, and mutual funds), provide copies of 2 most recent months of bank and/or investment portfolio statements:

- Provide all pages for each statement.
- Statements downloaded from the internet by the borrower are acceptable.
- Each statement must include the following information: Identify the depository institution, identify the borrower as the account holder, provide account number, indicate time period covered and all activity (deposits, withdrawals, purchases, sales, etc.), and provide beginning and ending balances.
- The broker can verify the borrower’s assets directly with the depository institution providing proper written authorization is received from the borrower (a blanket authorization form is acceptable). Broker receipt by fax directly from the depository institution is acceptable; however, the underwriter reserves the right to request actual bank and/or investment portfolio statements in order to view more detailed account activity.
- Verify source of all atypical increases to accounts. For example, if a borrower reflects a recent $30,000 increase to a checking account because they closed and deposited the balance of a savings account held at another institution; provide the most recent 2 months statements for the closed account in addition to the checking account, to document source of increase came from borrower’s own funds.

Contribution from an “Interested Party” to the Transaction

Contributions from an interested party are costs that are normally the responsibility of the purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms
and the sale or transfer of, the subject property.

Interested parties to a transaction include, but are not limited to, the property seller, builder, developer, real estate agent or broker, or any affiliate who may benefit from the sale of the property or the sale of the property at the highest price possible.

A lender or employer is not considered an interested party unless they are the seller or are affiliated with the seller.

All contributions from an interested party are considered as either a financing or sales concession:

- All contributions are required to be disclosed upfront, regardless of whether they are included in the purchase contract or not. For example, “silent” seconds or any fees or costs paid for the borrower outside of closing.

- Contributions towards a purchasers closing costs and/or prepaids are limited to 3% of the sale price or the actual total sum of closing costs and/or prepaids, whichever is less. Contributions that exceed this limitation are considered a sales concession and are to be subtracted from the sales price.

- Typical fees or closing costs customarily paid by the seller in accordance with the local custom are not considered a contribution made by an interested party.

- “Non-realty” sales concessions include, but are not limited to, furniture, televisions, cash, automobiles, decorating costs, moving costs, other “give-aways”, etc. and the value of such contribution is required to be subtracted from the sales price. (Exceptions can be made to not reduce the sale price case-by-case providing the underwriter deems the amount minor compared to the overall transaction.)

- A contribution by the seller to provide a certain number of monthly payments on behalf of the borrower is considered a sales concession and value of such contribution is required to be subtracted from the sales price.

- A “gift of equity” by the seller to the purchaser requires the loan amount be limited to 80% maximum of the property’s appraised value or purchase price, whichever is less. Refer to “Gifts” for more detailed information on equity gifts.

**Stock Options and Awards**

Vested stock options and stock awards may be used for down payment and cash reserves. To verify, provide a current statement of the borrower’s holdings and verify the following information:

- Option price at time of grant
- Borrower’s vesting schedule
- Number of shares currently vested
- Unvested shares remaining

Depending on the type of option granted, the borrower may or may not be taxed upon exercise. Non-Qualified Stock Options (NQSO) are taxed upon exercise. Qualified Stock Options are not taxed upon exercise. Stock awards are taxed upon vesting.

**Stock Options:** Use net value of vested stock options after cost for down payment and cash reserves. To calculate, use current stock price today less option price of stock multiplied by number of vested shares and subtract 30% for tax expense. For example:

```
Current Stock Price    $50 per share
```
Less Stock Option Price - 30 = 20 per share (profit)

Multiplied by number of vested shares x 1,000 = 20,000

Less 30% for tax expense - 6,000

Equals Net Value = $14,000

Unvested shares cannot be used for down payment.

Case by case, unvested stock options and awards can be used to compensate for limited cash reserves or high ratios. Frequency of vesting, number of shares and duration of vesting period for remaining shares will be considered and no more than 50% of the value based on current value will be used in order to account for potential market fluctuations and tax expense.

Retirement Accounts

Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment and closing costs. Verify the ownership of the accounts and the borrower's actual receipt of the funds realized from the liquidation of the assets if needed to complete the transaction.

Retirement accounts cannot always be used for cash reserves, depending on the penalties for early withdrawal, limited access of many accounts and vesting requirements.

To account for withdrawal penalties and estimated taxes, only 70% of the vested amount may be considered for cash reserves providing the account is verified to be accessible to the borrower for withdrawals. Retirement accounts that do not allow any type of withdrawal without terminating employment may not be considered.

Loan Against Retirement

If a borrower is obtaining a loan against a retirement for source of funds for down payment and closing costs, provide proof of receipt of loan proceeds and copies of loan documentation indicating the terms for repayment. Include total monthly loan payment amount in back ratio calculation.

Gift Funds

A personal gift from an acceptable donor may be used for some or all of the down payment and closing costs subject to the requirements set forth in "Minimum Borrower Contribution".

Gifts are not allowed on an Investment Property.

An acceptable donor is defined as any relative, spouse, fiancé, fiancée or domestic partner.

The donor may NOT be any interested party to the transaction.

Provide the following documentation for the gift:

- A letter signed by the donor ("Gift Letter") specifying the dollar amount of the gift and statement that no repayment is expected. Also, specify donor's name, address, phone number and relationship to borrower.

- Document borrower's receipt of the gift by providing a copy of donor's check and borrower's deposit slip or equivalent.

Gift of Equity from Seller

If the seller is providing a gift to the borrower in the form of a credit at closing for a portion of the equity in
the subject property, WAFED requires the following:

- Seller must be an acceptable donor as defined above.
- LTV is limited to 80% maximum

**Verification of Earnest Money/Sales Contract Deposit**

If the earnest money deposit is being used as part of the borrower’s minimum required contribution, broker must verify the funds are from an acceptable source:

- Banks statements or written verification of deposit must indicate the average balance is sufficient to support the amount of the deposit.
- If it cannot be determined with the bank statements or written verification of deposit that the source of funds is from the borrower, other documentation will be required to verify the source is satisfactory.

**Sale of Property**

If proceeds from the sale of the borrower’s home are required for funds to close, calculate the estimated proceeds by using the sales price, less 10% (of the sales price) for sales costs, less the total sum of all underlying liens (secured and unsecured). A certified (or fully executed) final Closing Disclosure will be required prior to funding the loan to document the amount of proceeds are sufficient as required.

**Rent with Option to Purchase**

All “Rent with Option to Purchase” transactions are reviewed case by case. In general, the maximum credit for down payment allowed will be calculated using the difference between the total amount the borrower paid for rent less the total market rent for the property. For example: If the total rent borrower paid is $2,000 per month and the market rent is $1,500 per month and the borrower made 24 payments, the maximum credit for down payment allowed would be $12,000 ($2,000 minus $1,500 multiplied by 24). Any further credit the seller allows will be considered a sales concession and subtracted from the sales price.

Market rent will be determined by either the appraiser or by a market rent analysis provided by a licensed real estate agent that is not a party to the transaction.

Verification of rental payments for a minimum of 12 months is required as evidenced by canceled checks or equivalent.

**Bridge Funds**

A borrower may utilize bridge financing (a loan against the equity in current home) as the source of funds to close, providing the borrower qualifies for the payment on the new home, the current home, the bridge loan, and all other obligations.

Instead of a bridge loan, however, we recommend the WAFED Cross-Collateral Bridge Loan as a more flexible financing option. Please refer to the Cross Collateral Bridge Loan program description for complete details.

Occasionally a borrower may obtain funds from a relative with the agreement to pay the funds back after closing when their current home sells. WAFED will allow this case by case providing the equity position in current home is sufficient and the borrower can qualify for the payment on the new home, the current home and all other obligations. A letter of agreement is required from the relative and verification of borrower’s receipt of the funds is required.
Proceeds from Unsecured Loans or Credit Cards

Proceeds from unsecured loans or credit cards is not an acceptable source of funds to close.

Proceeds from Sale of Personal Assets

Proceeds from the sale of the borrower’s personal assets, such as a car, is an acceptable source for down payment and closing costs under the following circumstances:

- Verify borrower’s ownership of the asset.
- Verify value of the asset.
- Purchaser cannot be a party to the transaction.
- Verify transfer of the ownership of the asset to the purchaser.
- Verify borrower’s receipt of the proceeds.

Appraisal Guidelines

WAFED requires an appraisal from a licensed appraiser dated within 6 months from closing date on all loans:

- Utilizing a WAFED approved appraiser is not a requirement in some states. Please refer to chart below for specific appraisal instructions for your state.
- Occasionally the Underwriter may require a WAFED approved appraiser be utilized regardless of whether or not a WAFED approved appraiser is required.
- At time of borrower’s application with the broker, the broker is required to provide a written notice to the borrower of their right to receive a copy of the appraisal and to include a copy of this notice with the Loan Submission Package to WAFED.
- The broker is required to provide a copy of the appraisal to the borrower promptly upon completion, but no later than three business days prior to closing.
- Interior inspections are required in all appraisal reports.
- WAFED conducts a thorough review of each appraisal received to ensure the value determination is accurate and supported properly.
- Regardless of whether the appraiser is WAFED approved or not, if our review determines the value is not supported with a minimum of 3 recently closed comparable sales in close proximity to the subject property, a lower LTV may be required to compensate for the weak support or the loan may be declined all together.
- For non-conforming properties or those that present a more challenging appraisal assignment, we strongly recommend requesting a referral to a WAFED approved appraiser.
Please refer to chart below for appraisal instructions for your state:

<table>
<thead>
<tr>
<th>State or Division</th>
<th>Appraisal Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>All States</td>
<td>A WAFED approved appraiser is preferred, however broker can order from any licensed appraiser. If a WAFED approved appraiser is not utilized, a copy of the appraiser’s current license is required.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property or Program</th>
<th>Type of Appraisal Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFR Detached and Zero-Lot Line PUD</td>
<td>1004</td>
</tr>
<tr>
<td>Custom Construction</td>
<td>1004; ask appraiser to include support for site value with a minimum of 3 land sales and provide appraiser with building plans, site plan, description of materials, building contract and cost breakdown.</td>
</tr>
<tr>
<td>Condominium</td>
<td>1073</td>
</tr>
<tr>
<td>Manufactured Home</td>
<td>1004C</td>
</tr>
<tr>
<td>2-4 Family</td>
<td>1025</td>
</tr>
</tbody>
</table>

**Note:** 2055 Appraisals are not acceptable on any property.

**Appraisals Ordered by Another Financial Institution:**

It is not acceptable for a broker to use any appraisal provided to them directly by the borrower, even if another financial institution ordered it. However, an appraisal ordered from another financial institution can be utilized if the broker obtains the appraisal directly from the financial institution that ordered it. If WAFED is provided with an appraisal for a transaction that has not been ordered by the broker, the broker will be asked to verify they obtained the appraisal directly from the financial institution that ordered it or provide another appraisal ordered by the broker.

**Property Guidelines**

**Condominiums - General Guidelines**

All condominium projects are required to be reviewed by Underwriting for acceptability on a project-by-project basis. WAFED does not provide a project approval list. Specific requirements that define a project’s acceptability are listed below based on the condominium project-type. If a project-type meets all of the requirements listed, it is considered a “warrantable project” by WAFED.

**Definition of Non-Warrantable Condominium Projects**

If a project does not meet the acceptability requirements for its project-type listed below, it is considered “non-warrantable”. **Important Note:** Non-warrantable is also a Fannie Mae term for condominium projects that do not meet Fannie Mae’s criteria for acceptability, however, WAFED may provide different criteria for acceptability.

**Unacceptable Condominium Projects**

The following projects are not acceptable for financing by WAFED under any circumstances (no exceptions):
• Projects that operate as a hotel or motel.
• Projects that allow time-shares and/or daily/weekly rentals.
• Projects with mandatory rental pooling.
• Projects that restrict the owner from occupancy of the unit in any way.
• Projects owned co-operatively; aka “Co-Ops”.
• Projects that are party to a lawsuit, with the exception of any that WAFED has deemed to be minor and does not affect the safety, habitability, structural soundness or functionality of the unit and overall project.

Condominium Project Documentation Required – All Project-Types
The following documentation on the condominium project is required for review with each condominium loan application:

• Completed WAFED form titled Condominium Questionnaire. WA Only: *If it is a purchase of a unit located in an established condominium project, a copy of the “Condominium Resale Certificate” is acceptable in lieu of completed Condominium Questionnaire.*

• Copies of recorded “Covenants, Conditions and Restrictions”.
• Copy of current budget for project (or projected budget if it is a new project).
• Copies of most recent 6 months of “minutes” from Homeowners Association meetings.

Established Condominium Project
An established project is defined as one that is 100% complete (and not subject to additional phasing or conversions) and having 90% or more of units sold and conveyed with complete control of the homeowners association turned over to unit owners. In general, the following characteristics must be present for an existing project to be considered acceptable:

• Must not include any one of the characteristics listed under Unacceptable Projects.

• Minimum 70% of units sold are owner-occupied.
• Maximum 10% of total number of units are 30 days or more delinquent with payment of monthly homeowners’ association dues.
• Project is not party to a lawsuit with the exception of any that WAFED has deemed to be minor and does not affect the safety, habitability, structural soundness or functionality of the unit and overall project.
• Satisfactory review of budget to verify adequate financial allowances have been made for any special characteristics of the project (such as a pool, hot tub, clubhouse, roof-top outdoor space, elevators, etc.) as well as for future capital expenditures and deferred maintenance required for typical common areas, such as roof replacement, exterior and interior painting, landscaping, etc.
• Verify satisfactory current “cash on hand” for project relative to total number of units and review of current budget.
• Must not be a manufactured home project.
• No time-share’s or daily-rentals allowed.
• For a project that consists of 10 or more units, maximum ownership by one person or entity cannot exceed 10% of total number of units.

• For a project that consists of less than 10 units, maximum ownership by one person or entity cannot exceed one unit.

• For a 2-unit project, LTV is limited to 75%.

• All projects that include commercial space will be considered case-by-case and are not automatically unacceptable if more than 20% of total square footage is used commercially. Review of project will take into consideration the age and success of project, neighborhood characteristics, and overall marketability of such a project.

New Condominium Project

A new project is defined as one that has less than 90% of units ownership sold and transferred and otherwise does not meet the definition above of an existing project. The following characteristics must be present for a new project to be considered acceptable:

• Must not include any one of the characteristics listed under Unacceptable Projects.

• Certificate of occupancy or equivalent must be issued for entire project or subject phase, whichever the case may be.

• A minimum of 70% of total number of units in project or subject phase have been conveyed or are in a bona fide contract for sale as owner occupied or second homes.

• If the project consists of attached units, all of units in the building that the subject property is located in must be 100% complete.

• If new project is a conversion from rental apartments to individually owned condominium units (commonly called a “Condo Conversion”), refer to special requirements listed below in “Condominium Conversion Project”.

• Must not be a manufactured home project.

• Maximum ownership by one person or entity, other than the developer in the initial marketing phase, does not exceed 10% of the total units in the project.

Condominium Conversion Project

A condominium conversion project (“Condo Conversion”) is defined as rental apartments that are converting to individually owned condominium units. A conversion is typically completed unit-by-unit and always involves some level of improvement to each unit and the common areas. Improvements range from simple cosmetic upgrades, such as new paint, appliances, flooring and cabinetry to a complete “gutting” and remodel, including plumbing, heating, wiring and electrical systems. Increased risk is associated with financing a unit located in a Condo Conversion Project if only a portion of the units has been converted. Due to increased risk associated with a Condo Conversion Project, these requests will be reviewed on a case-by-case basis only and may not be permitted at all depending on the loan program and borrower’s qualifications.

Non-Warrantable Condominium Project – Exception Request

Exceptions to finance a unit located in a non-warrantable project will be considered case-by-case providing there are strong compensating factors to offset, such as a low loan-to-value. A rate-adjustment (add to rate) for Non-Warrantable Condominium Project applies as stated in the current Wholesale
Manufactured Homes

WAFED will finance double and triple-wide manufactured homes that are 15 years old or newer and on a permanent foundation. Title must be eliminated. Available to owner occupied or second home borrowers only. Financing for single-wide or non-owner occupied borrowers is not available. For complete loan parameters, please refer to program description for Manufactured Home.