Contents

Home Ready Matrix

	Owner-Occupied Only, Purchase and Rate Term Refinance		
	Property Type	**LTV/CLTV/HCLTV**	**Min Credit Score**
See Loan Purpose for requirements for loans exceeding 95% Max CLTV is 105% with Community Second secondary Financing	1 Unit	97%	620
	2 Units	85%	620
	3-4 Units	75%	620
Ability to Repay and QM Rule	Clear itemization of fees and application of credits that indicate paid by/to is required on on all loans		
Age of Documents	New and Existing construction, credit documents must be no more than 120 days old on the execution of the note, including credit reports, income, employment and asset documentation		

Appraisals

- Determined by AUS Findings.
  - The use of Value Acceptance (appraisal waiver) is allowed when the final submission of the loan casefile to DU results in a Value Acceptance offer.
  - Value Acceptance + property data (PDC) is eligible for certain loan casefiles where DU offers Value Acceptance + PDC
    - DU Approve / Eligible required
    - One-unit properties only
    - Ineligible transactions include:
      - Condos
      - Manufactured homes
      - Investment properties where rental income is used to qualify
      - Proposed construction
      - Construct to perm
      - Texas 50(a)(6)
      - Leaseholds
      - Properties with resale price restrictions (includes Community Land Trusts)
      - Gift of equity transactions
      - Purchase price or estimated value is > $1,000,000
      - Refer to the Fannie Mae Selling Guide for complete guidance
    - The property data collection must be obtained after the initial DU offer and submitted to the Property Data API prior to the note date.
    - If the subject property requires repairs or alterations, satisfactory evidence and documentation must be provided showing the condition has been corrected (evidence and documentation must meet Fannie Mae requirements).
    - If the Value Acceptance +PDC offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in certain cases it may be possible to obtain a hybrid appraisal
    - If an appraisal is obtained, the appraisal must be used.
    - Refer to the Fannie Mae Selling Guide for complete Value Acceptance + property data program requirements.
- If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.
- Properties with unpermitted secondary kitchens may be eligible if:
  - It is common for the area,
  - No negative impact on marketability, and
  - Appraiser comments on quality of construction, any health/safety issues, any soundness issues, which must meet Fannie Mae requirements.
- Accessory units are acceptable when meeting Fannie Mae requirements.
- When the accessory unit is permitted or complies with zoning:
  - The property is defined as a one-unit property.

- There is only one accessory unit on the property; multiple accessory units are not permitted
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
    - The accessory unit must have the required separate features per Selling Guide Section B2-3-04
    - The kitchen must meet all requirements per Selling Guide Section B2-3-04. The removal of the stove does not change the accessory unit classification.
    - Manufactured homes are eligible as accessory units if they meet the requirements per Selling Guide Section B2-3-04 and are not given any value by the appraiser.
- When the accessory unit is NOT permitted or DOES NOT comply with zoning:
    - Keystone receives confirmation that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
    - The use conforms to the subject neighborhood and to the market.
    - The property is appraised based upon its current use.
    - The appraisal must report that the improvements represent a use that does not comply with zoning.
    - The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least two comparable properties that have the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.
- Recert of values in accordance with Fannie Mae guidelines are acceptable.
- Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.

Assets/Gift Funds/Large Deposits

Assets

- Follow Fannie Mae verification of deposit and asset documentation guidelines to determine asset eligibility for down payment, closing costs, and reserve requirements.
    - Asset statements must clearly identify the borrower as the account holder
    - Assets held solely in the name of a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
- Follow Fannie Mae guidelines for gift fund eligibility and documentation requirements
    - Gift funds are ineligible on an investment property transaction

Large Deposits

- Follow Fannie Mae guidance for large deposit eligibility and verification requirements
    - Large deposits sourced back to a non-borrowing purchaser are considered a gift and must follow Fannie Mae gift fund requirements.
- On refinance transactions, the documentation or explanation for large deposits is not required; however, any borrowed funds, including any related liability, must be considered.

Virtual Currency

- Cryptocurrency/Virtual Currency may only be used as funds for closing and reserves if it has been exchanged into U.S. dollars and is held in a U.S. or state regulated financial institution. There must be sufficient documentation to verify that the funds originated from the borrower's cryptocurrency/virtual currency account. Acceptable documentation to use those funds includes the following:
    - Documentation from Cryptocurrency exchange account verifying the borrower as the Legal Owner and not the nickname of the account, AND
    - Previous borrower bank statement showing funds going into the same Cryptocurrency exchange account that the large deposit came from, OR
    - 1099-B/MISC from the same Cryptocurrency exchange account that the large deposit came from, plus the borrower's Tax Returns reflecting the 1099 gain/loss

AUS

- Desktop Underwriter with "Approve/Eligible" Findings is required
- Manual UW is not permitted

Borrower Eligibility

- U.S. citizens
- Permanent resident aliens, with proof of lawful permanent residence
- Nonpermanent resident alien immigrants with proof of lawful residence
- DACA recipients are eligible with proof of legal status, including but not limited to a valid Employment Authorization Document card. See Non-U.S. Citizen Documentation Requirements.
- Non-occupant borrowers permitted to maximum 95% LTV/CLTV/HCLTV in DU
    - Income is considered as part of qualifying income and subject to income limits

Condominiums

- See B4-2 Project Standards in Fannie Mae's Seller Guide or https://www.fanniemae.com/singlefamily/project-eligibility for complete details on condos.
- Fannie Mae to Fannie Mae rate and term refinances up to 80% LTV may be eligible for a waiver of the project eligibility review.
    - Documentation confirming refinanced loan was owned by Fannie Mae is required.
    - Condo type V required.
    - See B4-2.1-02 Waiver of Project Review for additional information.
- Limited Review allowed in accordance with Fannie Mae Guidelines, including NOO up to 75% LTV/CLTV/HCLTV
- Projects in which the HOA is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible.

- Projects with pending litigation that involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, may be eligible if the litigation meets Fannie Mae's requirements for minor matters. See Fannie Mae Selling Guide Section B4-2.1-03 for details.
- Florida Condos are allowed in accordance with Fannie Mae requirements.
- Broker must provide all documentation used to verify the condo warranty type. This may include, but is not limited to:
    - Loan documentation with warranty type
    - HOA questionnaire
    - Copies of applicable insurance policies
        - Master Insurance Policy must specify 100% replacement cost coverage, guaranteed replacement cost coverage or provide a replacement cost estimate for the entire condominium association.
    - Any additional documentation as required by the warranty type

Credit

- Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment unless the below requirement for borrowers without a credit score are met:
    - All borrowers may have no credit score. Fannie Mae and DU requirements must be met.
- When the borrower has an APO, FPO or DPO, military address it does not need to be located within the U.S. to obtain a credit report compatible with DU® loan casefile requirements.
- Mortgage Payment History
    - The mortgage payment history reflected on the credit report can be used to meet mortgage payment history requirements
    - Keystone must warrant that repayment of the debt can be expected from the borrower and that there are no circumstances or conditions of which the lender is aware involving the mortgage, the mortgaged premises or the creditworthiness of the borrower that would adversely affect the value or marketability of the mortgage. If a borrower is not making payments on an existing mortgage at the time of application for a new mortgage, it may be an indication that the borrower is experiencing a financial hardship that is preventing them from making their mortgage payments. Keystone must also consider whether the borrower's circumstances will impact their willingness or ability to make the payments on the new mortgage.
    - As a reminder, Fannie Mae requires the following: On the date of the loan application, the borrower's existing mortgage(s) must be current, which means that no more than 45 days have elapsed since the last paid installment. If the credit report does not reflect the above, proof the additional loan payments were paid on time is required. Refer to Fannie Mae Selling Guide B3-5.3-03
- A maximum of one credit bureau may be frozen with a DU accept. If the credit must be un-frozen, borrowers must unfreeze all bureaus, and the DU rerun with the updated credit.
- LTV/CLTVHCLTV > 95% require at least one borrower to have at least one credit score.
- No more than two tax years may be on repayment plan

Derogatory Credit

<table>
<tr><th>Derogatory Event</th><th>Waiting Period Requirements</th></tr>
<tr><td>Bankruptcy — Chapter 7 or 11</td><td>4 years</td></tr>
<tr><td>Bankruptcy — Chapter 13</td><td>• 2 years from discharge date
• 4 years from dismissal date</td></tr>
<tr><td>Multiple Bankruptcy Filings</td><td>7 years
3 years with documented extenuating circumstances (see section below) allowed subject to:
up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,
purchase of an OO, or
rate and term of any occupancy
If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.</td></tr>
<tr><td>Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off</td><td>• 4 years
• 2 years with documented extenuating circumstances, see Extenuating Circumstances below</td></tr>
</table>

All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.

Disaster Policy

- Keystone may require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster. See Keystone disaster policy located in the Broker's Guide for full details.
- Acceptable inspection providers include, but are not limited to, the original appraiser or a post-disaster inspection company.

Documentation Type

- Documentation requirements are determined by the AUS
- Handwritten Verification of Mortgages (VOM) or Verification of Rents (VOR) are not eligible
- VODs are not acceptable for asset documentation
- Private mortgages may be verified with cancelled checks or bank statements
- Income or assets derived from the following sources are ineligible for qualifying:
- The production or sale of marijuana
- Bitcoin or other cryptocurrencies
    - See the Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account.

Day 1 Certainty

- Loans using Day 1 Certainty are acceptable.
- Broker must provide the third-party vendor report used in the DU validation process. Keystone will compare the vendor reference number and date to the DU messages.
- When all of a borrower's income is validated by the DU validation service, the broker is not required to obtain a signed IRS Form 4506–C or tax transcripts for that borrower.

Note: Regardless of AUS documentation requirements, all documentation submitted with the loan file is subject to review and may be used for qualification purposes.

Down Payment Assistance

- Down Payment Assistance is allowed as long as the assistance is provided by a government entity or a non-profit organization that is affiliated with a government entity. Evidence of the terms and provider must be included in the loan file and must meet Fannie Mae requirements.
- Employer assistance is acceptable in accordance with Fannie Mae guidelines.

Extenuating Circumstances

- Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.
- If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements,

property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.).

- The broker must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.

Eligible Mortgage Products

- Fixed Rate, up to 30 Year term.
    - High Balance eligible up to 95% LTV/CLTV
- Please refer to the Fannie Mae Selling Guide for additional information.
- Loans with LTV/CLTV/HCLTV calculated using the "Affordable LTV" calculation are eligible for funding subject to meeting all Fannie Mae requirements. Refer to the Fannie Mae Selling Guide for additional details.
- HomeStyle Energy not eligible in combination with HomeReady.
- Escrow for taxes, insurance, and mortgage insurance are required above 80% LTV, (90% in CA), or as required by applicable state law.
- Texas refinances are ineligible

Employment/Income Verification

- For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.
- For self-employed borrowers the verbal verification of employment must be completed within 120 days prior to the note date.
- For borrowers in the military, a military Leave and Earnings Statement dated within 120 calendar days prior to the note date is acceptable in lieu of a verbal verification of employment.
- Trust income is eligible and must be documented and calculated in accordance with all Fannie Mae requirements.
- Mortgage Credit Certificates (MCCs) enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.
    - When calculating the borrower’s debt-to-income ratio, treat the maximum possible MCC income as an addition to the borrower’s income, rather than as a reduction to the amount of the borrower’s mortgage payment. Use the following calculation when determining the available income:
        - [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower’s monthly income.
        - For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).

- The broker must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.
  - For refinance transactions, the MCC may be allowed to remain in place as long as broker obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.
- Housing Choice Voucher Homeownership Program income (commonly known as Section 8 for homeowners) paid via Housing Assistance Payments (HAPs) are an acceptable source of income.

Employment Offers or Contracts

Borrowers with employment beginning no more than 90 days after the note date are eligible when:

- Purchase transaction, principal residence, one-unit property, the borrower is not employed by a family member or by an interested party to the transaction, and the borrower is qualified using only fixed based income.
- Obtain and review the borrower's offer or contract for future employment. The employment offer or contract must
  - clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
  - Clearly identify the terms of employment, including position, type and rate of pay, and start date; and be non-contingent.
  - Note: If conditions of employment exist, Keystone must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.
- Start date for employment is no more than 30 days prior to the note date:
  - Employment offer or contract required; and
  - Verbal Verification of employment that confirms active employment status
- Start date is no more than 90 days after the note date
  - Employment offer or contract only
- Document, in addition to the amount of reserves required by DU or for the transaction, one of the following:
  - Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
  - Financial reserves or current income sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.
    - Current income refers to income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract.

- Current income may be used in lieu of or in addition to financial reserves. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date.
- If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, and no verification of employment is required.

- For Fannie Mae Employment Contracts option two is acceptable, option one is not allowed, Refer to the Fannie Mae Selling Guide for additional details.

Escrow Holdbacks

- Follow FNMA guidelines regarding reason, type of improvements, time to complete, quality, disbursements, and post-closing documentation.
- Post funding stip for 1004D confirming completion will be placed on loans where appraisal is "subject to" completion of improvements.
- Post funding stip for a final title policy endorsement that ensures the priority of the first lien will be placed on loans where the appraisal is "subject to" completion of improvements.
- A copy of the escrow agreement will be required to show how the escrow account will be managed and how funds will be disbursed.
- New Construction only
- Weather related repairs only
- Keystone must administer escrow account and disbursement of funds
- 150% of repair escrow estimate to be escrowed

Financing Concessions

- Financing concessions for primary residences must be within the following allowable percentages:
    - 9% of value with LTV/CLTV ratios less than or equal to 75%
    - 6% of value with LTV/CLTV ratios greater than 75% up to and including 90%
    - 3% of value with LTV/CLTV ratios greater than 90%
- Value is the lesser of the sales price or appraised value.

Forms

Fannie Mae specific forms for the HomeReady program can be found at https://www.fanniemae.com/singlefamily/homeready.

Funds to Close: Acceptable Sources

- In addition to standard Fannie Mae eligible sources, the following sources are eligible to use as funds to close:
  - Gifts, follow Fannie Mae's guidelines. See B3-4.3-04
  - Grants
  - Community Seconds, including multiple Community Seconds
    - Must be from a government entity
  - Sweat Equity is not an eligible source of funds
  - Cash on hand is acceptable. See Funds to Close: Cash On Hand section for details

Funds to Close: Borrower Contribution

Number of Units	Minimum Borrower Contribution	Minimum Down Payment Requirement
1	None	3%
2	3%	15%
3-4	3%	25%

A 3% down payment is permitted for certain purchase transactions. Loan must meet LTV/CLTV/HCLTV > 95% requirements. See Loan Purpose section, and Fannie Mae Selling Guide B5-6-02.

Funds to Close: Cash On Hand

- Cash on hand is an acceptable source for the borrower's down payment, funds for closing costs, and prepaid items for one-unit properties.
- Keystone must verify and document the following with respect to the cash-on-hand funds:
  - The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices.
  - The broker must provide proof that funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing.
  - The broker must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed.
  - The borrower's credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.
- Note: Cash-on-hand may not be used to fund the borrower's reserve requirement, if applicable.

High Cost / High Priced

- Keystone will not fund High-Cost Loans.
- Higher Priced Mortgage Loans (HPML) transactions are eligible for funding. HPML guidelines require:
    - Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence.
    - Must meet all applicable state and/or federal compliance requirements.
    - HPML ARM loans with an initial fixed rate period of less than seven years are ineligible.

Homeownership: Education and Counseling

- When all occupying borrowers are first-time homebuyers on a HomeReady purchase then at least one borrower must do one of the following :
    - On or after 1/1/2022, complete a homeownership education course with any qualified third-party provider as long as the provider is independent of the lender and the content is aligned with the National Industry Standards (NIS) for Homeownership Education and Counseling or with the U.S. Department of HUD Housing Counseling Program or provided by a HUD-approved counseling agency; or
    - Complete a homeownership education course required by a Community Seconds or Down Payment Assistance Program that is provided by a HUD-approved agency prior to closing, if the HomeReady loan involves a Community Seconds or down payment assistance program; or
    - Receive housing advising from a HUD-approved nonprofit housing counseling agency (as evidenced by a signed Certificate of Completion of Pre-purchase Housing Counseling (Form 1017)) prior to the borrower signing a purchase contract.
- Homeownership education certificate or Form 1017 must be retained in the mortgage file.

Income: Boarder

- The rental payments that any borrower receives from one or more individuals who reside with the borrower (but who are not obligated on the mortgage debt and may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if:
    - The individual(s) has lived with (and paid rent to) the borrower for the last 12 months.
    - The boarder can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver's license, bill, or bank statement that shows the boarder's address as being the same as the borrower's address).
    - The boarder can demonstrate (such as copies of canceled checks) the payment of rental payments to the borrower for the last 12 months, or
    - At least 9 of the most recent 12 months provided the rental income is averaged over a 12–month period.
- Payment of rent by the boarder directly to a third party is not acceptable.

Income: Limits

- Total annual qualifying income may not exceed 80% of area median income (AMI).
- Does not include non-borrower household member income.
- Lenders must use AMI's used by Fannie Mae in DU or on FNMA's website.

Loan Purpose

- Purchase
- Rate & Term Refinance:
  - At least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Exceptions are allowed if:
    - The borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or divorce decree, or
    - The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.
  - Properties held in a Limited Liability Corporation (LLC) do not meet Fannie Mae ownership eligibility requirements. At least one borrower (individually) must be on title prior to the application date of the new loan.
  - A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a Note date 30 days or less prior to the application date of a new refinance secured by the same property
  - Proceeds can be used to pay off a first mortgage lien
  - Proceeds can be used to pay off an existing first lien mortgage that includes a deferred balance
    - A deferred balance that is a second lien is not eligible for a limited cash-out refinance
  - For two-closing construction-to-permanent loans, to pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing. (These construction cost overruns must be paid directly to the builder at closing.)
  - Pay related closing costs and prepaid items
  - Disburse cash out to the Borrower in an amount not to exceed 2% of the new Mortgage or $2,000, whichever is less
  - Disaster-Related Limited Cash-Out Refinance Flexibilities - Standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster are allowed as follows:
    - Permits the refinance of non-purchase money subordinate loans obtained to finance disaster-related property repairs, and
    - Provides for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster related property repairs.

  These guidelines apply only to loans secured by the borrower's principal residence. SFC 416 must be applied prior to loan delivery. Refer to Fannie Mae Chapter B5-4.2-02 for all requirements.
- > 95% LTV/CLTV/HCLTV Purchase and Rate & Term Refinance:

- One Unit primary residence only
- Standard balance only
- All borrowers must occupy the property
- At least one borrower has a credit score
- Rate & Term only: The lender must document the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from any of the following:
  - The lender's servicing system,
  - The current servicer (if the lender is not the servicer),
  - Fannie Mae's Loan Lookup tool, or
  - Any other source as confirmed by the lender
  - This requirement does not apply if the CLTV exceeds 95% due to Community Second only

- Cash Out
  - Not allowed

Loan Purpose: Ineligible Transactions

Intra-family purchases as a means to obtain cash-out for the seller while avoiding cash-out qualifications and pricing are not eligible transactions. These types of transactions may seem to meet Agency guidelines, they are not bonafide purchase transactions and therefore not eligible for funding by Keystone. Unacceptable transactions of this type may have some or all of the following characteristics:

- Gift of equity from the seller
- Large amount of seller credits
- Family member remaining in the home and on title after the "purchase"
- Seller unable to qualify for a cash-out transaction of their own

Mortgage Insurance

- Coverage percentage per Fannie Mae requirements. Full or reduced coverage is allowed.
- Acceptable MI Types:
  - Borrower Paid Monthly
  - Borrower Paid Single Premium
  - Financed: Gross LTV cannot exceed the program maximum
    - Allowed for 1-unit properties only
  - Split Premium
  - Lender Paid Single Premium
- Unacceptable MI Types:
  - Lender Paid Monthly
  - Lender Paid Annual
  - Borrower Paid Annual
  - Any MI type not listed as acceptable

Occupancy

Owner Occupied only

Power of Attorney (POA)

An individual employed by or affiliated with any party to the loan transaction e.g. title insurer, settlement agent etc. is not eligible as a POA.

Property: Eligible Types

- Single Family Detached Single Unit
- Single Family Attached Single Unit
- 2–4 Unit Attached/Detached
- PUDs
- Low-rise and High-rise condominiums (must be Fannie Mae eligible)
- Rural Properties (in accordance with agency Guidelines, properties must be residential in nature)
- Leaseholds
- Manufactured Homes – refer to the Fannie Mae Manufactured Home Product Profile for all requirements. The more restrictive of the loan program guidelines apply.

Property: Ineligible Types

- Mobile homes
- Cooperatives
- Condotels
- Hotel Condominiums
- Timeshares
- Working Farms and Ranches
- Unimproved Land
- Property currently in litigation
- Land Trust, including Community Land Trust Mortgages and Illinois Land Trust
- Condition Rating of C5/C6 or a Quality Rating of Q6
- Homes purchased using HomeStyle Financing

Property Flipping Policy (Properties resold within 180 days of funding)

- Properties that involve a re-sale that occurred within the last 180 days that have a non-arm's length relationship between the buyer and seller and an increase in value are prohibited. Time frame is established by seller's date of acquisition as the date of settlement on the seller's purchase of that property and the execution of a sales contract to another party.
- Keystone will pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short time period since the prior sale. Keystone believes that one of the best ways brokers can reduce the risk associated with excessive values and/or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.
- Keystone may recommend an additional value product to support the subject appraised value in instances of greater than 20% appreciation.

Property: Maximum Number of Financed Properties

The occupant borrower may not have more than two financed properties.

Ratios

The Maximum DTI is 50% with a DU Approve/Eligible.

Recently Listed Properties

- The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions).
- If the property was listed in the prior 30 days to the application date, the Early Pay-off (EPO) provision will be extended to 1 year.

Rental Income Calculation

- Rental Income from accessory units is allowed.
- Follow standard rental income requirements.
- See B3-3.1-08 for complete details.

Reserves

Required per DU

Seasoning

Please refer to the Keystone Seasoned Loan Policy located in the Keystone Broker Guide for requirements and loan-level price adjustments.

Secondary Financing

- Standard secondary financing: Maximum CLTV/HCLTV is the same as LTV in the matrix at the beginning.
- Community Second secondary financing: Maximum CLTV is 105%.
  - More than one Community Second is allowed.

Tax Transcripts

- Tax transcripts for the most recent one year are required for all self-employed borrowers whose income is used to qualify. If only non-self-employed income is used to qualify, transcripts are not required.
- When tax transcripts are provided, they must support the income used to qualify.
- A properly executed 4506-C is required for all transactions except:
  - Loan file contains tax transcripts, or
  - When all of a borrower's income is validated by the DU validation service (FNMA only).
- If tax transcripts are not available (due to a recent filing for the current year) a copy of the IRS notice showing "No record of return filed" is required along with documented acknowledgement receipt (such as IRS officially stamped tax returns or evidence that the return was electronically received) from the IRS and transcripts from the previous year.

Temporary Interest Rate Buydowns

Allowed subject to the following:

- Max total interest rate reduction of 2%, max increase per year of 1% (e.g., 1/0, 2/1)
- Maximum 2 years to reach standard note rate
- Minimum 680 FICO
- Purchase only
- Fixed rate
- Manufactured Homes are ineligible
- Must qualify at the standard note rate without benefit of the buydown
- Must meet all other applicable Fannie Mae requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.