



## Contents

Ability To Repay and Qualified Mortgage Rule.....	2
Age of Documents .....	2
Appraisals .....	2
Assets.....	5
Large Deposits .....	5
Virtual Currency.....	5
Minimum Borrower Contribution.....	6
AUS .....	6
Borrower Eligibility .....	6
Credit .....	6
Condominiums.....	7
Derogatory Event.....	7
Documentation.....	8
Down Payment Assistance.....	9
Extenuating Circumstances .....	9
Eligible and Ineligible Mortgage Products and Features .....	9
Employment/Income Verification .....	10
Employment Offers or Contracts.....	10
Open-end Accounts (30 days) – Freddie Only .....	11
Escrow Holdbacks .....	11
Financing Concessions .....	12
High Cost / High Priced.....	12
Loan Purpose .....	13
Purchase and Rate Term.....	13
Purchase .....	13
Limited Cash-Out/Rate & Term Refinance .....	14
Loan Purpose: Cash-Out .....	15
Loan Purpose: Ineligible Transactions .....	17
Mortgage Insurance.....	17
Acceptable MI Types: .....	17
Unacceptable MI Types: .....	17
Occupancy .....	17

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Power of Attorney (POA) .....18

Property: Eligible Types .....18

Property: Ineligible Types .....18

Property Flipping Policy (Properties resold within 180 days of funding) .....19

Property: Maximum Number of Financed Properties .....19

Property: Turn-key Investments .....20

Ratios .....20

Recently Listed Properties .....20

Rental Income Calculation .....20

Reserves .....21

Tax Transcripts .....21

Fannie Mae Matrix .....22

Freddie Mac Matrix .....22

**Ability To Repay and Qualified Mortgage Rule**

- For loans subject to the ATR/QM rule, Keystone will only fund loans that comply with the ATR/QM requirements.
  - Investment properties which are for business purposes (borrower does not intend to occupy for greater than 14 days in the year) are exempt from ATR/QM; however, such loans must meet agency eligibility requirements and are subject to the applicable points and fees threshold.
  - Investment Properties are not eligible for manufactured homes
- Loan Officers are responsible for providing evidence of compliance with the ATR/QM rules.
- Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans.

**Age of Documents**

- For new and existing construction, credit documents must be no more than 4 months old on the date the note is signed, including credit reports and employment, income and asset documents.
- Preliminary Title Policies must be no more than 180 days old on the date the note is signed.

**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.
    - Note: Manufactured Homes required full appraisal and are not eligible for Value Acceptance.
  - Value Acceptance + property data (PDC) is eligible for certain loan casefiles where DU offers Value Acceptance + PDC

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- 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
  - HomeStyle Renovation and HomeStyle Energy
  - 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.
- Desktop Appraisal allowed only with an Approve/Eligible recommendation and a message from DU indicating the casefile is eligible for a desktop appraisal. All agency required desktop requirements must also be met. Eligibility requirements include:
  - Purchase transactions of one-unit principal residence only
  - LTV ratios  $\leq$  90%
- 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 borrower qualifies for the mortgage without considering any rental income from the accessory unit.

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- 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 confirms 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.
- Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.

#### Appraisals - Manufactured Home

- Full appraisal required. Manufactured homes are not eligible for Value Acceptance or Value Acceptance + property data (PDC).
- Cost approach is required
- Structural modifications or additions:
  - Inspection by a state agency to approve modifications is required, if the state requires such inspection.
  - If there is no state requirement, then the structural modification must be inspected and be deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file.
- Standard
  - Minimum of 2 similar manufactured home comparables
  - Third comparable may be site built or modular home
  - Photos required, in addition to standard photos:
    - HUD data plate; or
  - HUD certification label
  - If neither the HUD data plate or certification label are available, a label verification letter with the HUD certification label information or duplicate HUD data plate/compliance certificate from the Institute for Building Technology and Safety (IBTS) is required.
- Verification from the In-Plant primary inspection agency or the manufacturer for the HUD Data Plate information is also acceptable.
- MH Advantage:
  - Use MH Advantage comps when available

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- Supplemental comps may be site-built homes. Refer to the Fannie Mae selling guide section B4-1.4-01 for complete details.
- Photos required, in addition to the standard photos
  - MH Advantage sticker
  - HUD data plate,
  - HUD certification label,
  - Site showing driveways, sidewalks, any detached structures.
  - The presence of a driveway leading to the home (or to the garage or carport, if one is present). The driveway must consist of blacktop, pavers, bricks, concrete, cement, or gravel (gravel must have a minimum depth of four inches), and;
  - The presence of a sidewalk connecting either the driveway, or a detached garage or carport, to a door or attached porch of the home. The sidewalk must consist of blacktop, pavers, flagstone, bricks, concrete, or cement.
- Accessory units are not eligible, B2-3-02.
- Properties with evidence of commercial production of marijuana, including but not limited to grow rooms, or hydroponic equipment, are ineligible.
- The property must be complete at the time of funding.

## 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

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- 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

#### Minimum Borrower Contribution

- A minimum borrower contribution of 5% of their own funds into the transaction is required when the LTV is > 80% and one of the following apply:
  - 2-4 unit Principal Residence, or
  - Second home
  - Manufactured Home

#### AUS

- Desktop Underwriter with "Approve/Eligible" Findings is required.
- Loan Product Advisor with "Accept" recommendation is required. LPA A Minus Offering is not allowed.
- 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.
- Freddie Only: LTV/TLTV above 95.01% (HomeOne)
  - All borrowers must occupy the property
  - At least one borrower must be a first time homebuyer
  - Standard Balance Only

#### Credit

- Each borrower's representative credit score must be a minimum of 620 regardless of the DU eligibility assessment unless the below requirements for borrowers without a credit score are met
  - All borrowers may have no credit score. Fannie Mae and DU requirements must be met.
  - See B3-5.4-01 for additional requirements.
- 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.
- 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

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- 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
- When the payment for the primary residence for any borrower is not reported on the credit report (ex: renting primary and the subject is 2nd/NOO):
  - Provide third party verification of payment amount.
  - No more than two tax years may be on repayment plan
- No more than two years may be on repayment plan for Manufacture Home property types

**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.
- Refer to the Freddie Mac Selling Guide for complete details on condominium eligibility and project standard requirements, for Freddie Mac loans.
- 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.
- Loan Officers 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
  - Any additional documentation as required by the warranty type

**Derogatory Event**

Derogatory Event	Waiting Period
Bankruptcy — Chapter 7 or 11	4 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none"> <li>● 2 years from discharge date</li> <li>● 4 years from dismissal date</li> </ul>
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years
Foreclosure	<ul style="list-style-type: none"> <li>● 7 years</li> </ul>

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	<ul style="list-style-type: none"> <li>• 3 years with documented extenuating circumstances (see section below) allowed subject to:             <ul style="list-style-type: none"> <li>○ up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix,</li> <li>○ purchase of an OO, or</li> <li>○ rate and term of any occupancy</li> </ul> </li> </ul> <p>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.</p>
Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale (Short Sale), Mortgage Charge-Off	<ul style="list-style-type: none"> <li>• 4 years</li> <li>• 2 years with documented extenuating circumstances, see Extenuating Circumstances below</li> </ul>

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

Documentation
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- Documentation requirements are determined by the AUS
- When loan programs are combined, the more restrictive of the guidelines apply (e.g., HomeReady and Manufactured Homes).
- LoanBeam income calculation is acceptable per Fannie Mae guidelines
- 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 Assets/Gift Funds/Large Deposits section for documentation requirements on funds used for closing/reserves that originated from a cryptocurrency account.
- Borrowers must document their current housing expense with one of the following when they do not currently own a primary residence:
  - Six months canceled checks or equivalent payment source;
  - six months bank statements reflecting a clear and consistent payment to an organization or individual
  - direct verification of rent from a management company or individual landlord; or
  - A copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

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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.
- Loans with Community Seconds may be eligible up to 105% CLTV. Follow Fannie Mae guidelines, second must be from government entity or a non-profit organization that is affiliated with a government entity.

### 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 lender 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 and Ineligible Mortgage Products and Features

- Fixed Rate: 10, 15, 20, 25, 30 Year;
- SOFR ARMs:
  - 5/6: 2/1/5 caps, qualifying rate: greater of fully indexed rate or note rate + 2%
    - An "Approve/Eligible" finding by DU may differ from the eligibility for the purpose of meeting QM requirements. The APR calculation for 5/6 ARMs requires the use of the maximum interest rate that would apply during the first five years as the interest rate for the full term of the loan. As a result, all loans must also meet QM requirements regardless of the AUS eligible determination.
    - Fully indexed rate = index rate + margin
  - 7/6: 5/1/5 caps, qualifying rate: note rate
  - 10/6: 5/1/5 caps, qualifying rate: note rate
    - Exception: 7/6 and 10/6 ARMs in IL, MA, MD (Purchase only), NM and PA require qualifying rate at the greater of the note rate or the fully indexed rate (index rate + margin). The DU qualifying rate may need to be adjusted to comply with this requirement.
  - Margin of 2.75% only.

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Please refer to the Fannie Mae Selling Guide for additional information.

- 3/6 SOFR ARMs are not eligible
- ARMS are not eligible on Manufactured Homes
- 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.
- HomeReady financing is eligible for funding. See FNMA HomeReady Product Profile for complete details.
- Fannie Mae High LTV not eligible
- Escrow for taxes, insurance, and mortgage insurance are required above 80% LTV, (90% in CA), or as required by applicable state law.
- One-time close construction are ineligible for Manufactured Homes.

### 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 Loan Officer must obtain a copy of the MCC and include them in the mortgage loan file.
  - For refinance transactions, the lender may allow the MCC to remain in place as long as it 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.

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- 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.
- 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 Fannie Mae Selling Guide for additional details.

### Open-end Accounts (30 days) – Freddie Only

For 30-day accounts (i.e. accounts that require the balance to be paid in full monthly):

- Verify sufficient funds\* to cover balance, in addition to funds required for closing and reserves and exclude from DTI, or
- Document payment amount and include in DTI. Acceptable documentation may include a monthly statement or credit supplement showing the payment amount.
- 5% of balance may not be used as a default payment.

\* The source of funds must be from an eligible source as described in Freddie Mac Guide section 5501.3

### Escrow Holdbacks

- Follow FNMA guidelines regarding reason, type of improvements, time to complete, quality, disbursements, and post-closing documentation.

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- 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 estimate to be escrowed

### Financing Concessions

- Financing concessions for primary residences and second homes 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%
  - The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio
- Value is the lesser of the sales price or appraised value
- Note: Financing concessions paid by Freddie Mac, as the property seller for transactions involving the sale of Freddie Mac REO properties are not subject to the above maximum financing concession limits. In all cases, the requirements for use of financing concessions continue to apply i.e. the concessions must not exceed the borrower's actual closing costs.
- Freddie Only: Property Seller can pay up to 12 months future HOA dues per Freddie Mac's guidelines. Amount of HOA dues must meet IPC limits. See Freddie Mac 4204.3 for additional information.

### 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.

### Land Value – Manufactured Homes

Date of Land Purchase	Value of Land	Documentation Requirements
More than 12 months preceding the loan application	The Current Appraised Value	Appraisal

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12 or fewer months preceding the date of the loan application	The lesser of: <ul style="list-style-type: none"> <li>• Sales price, or</li> <li>• Current appraised value</li> </ul>	Document the borrower’s cash investment by obtaining: <ul style="list-style-type: none"> <li>• A copy of the settlement statement</li> <li>• A copy of the warranty deed showing no outstanding liens against the property</li> <li>• A copy of the release of any prior lien</li> </ul>
The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction	The current appraised value	Obtain appropriate documentation to verify the acquisition and transfer of ownership of the land.

**Loan Amount – Manufactured Homes**

- The loan amount may include the following costs:
  - Cost of the manufactured home;
  - cost of the land;
  - the costs of construction, including
  - bona fide and documented transportation costs,
  - costs for site preparation, which may include the cost to remove an existing manufactured home and other outbuildings,
  - foundation,
  - establishing utilities,
  - all site improvements, and
  - dwelling installation at the site.
- Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the loan.

**Loan Purpose**

**Purchase and Rate Term**

**Purchase**

- >95% LTV requires at least one borrower to be a first time home buyer and at least one borrower must complete Fannie Mae’s Framework homebuyer education on a purchase transaction with LTV, CLTV or HCLTV ratios > 95% when all borrowers are first time homebuyers.

**Purchase – Manufactured Home**

- Purchase price may include bonafide and documented costs associated with transportation, site preparation, and dwelling installation at the site
- >95% LTV requires at least one borrower to be a first-time home buyer and at least one borrower must complete Fannie Mae’s Framework homebuyer education on a purchase transaction with LTV, CLTV or HCLTV ratios > 95% when all borrowers are first time homebuyers. Please refer to the Fannie Mae Selling Guide for complete details and exceptions.

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- Allowed only with MH Advantage
- LTV calculation applies to LTV, CLTV, and HCLTV as applicable.
  - Newly built manufactured home that is being attached to a permanent foundation system in connection with a purchase transaction will be based on the lower of:
    - the sales price of the manufactured home plus:
      - The lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or
      - The current appraised value of the land if the land was purchased more than 12 months preceding the loan application date.
    - The “as completed” appraised value of the manufactured home and land.
  - Existing manufactured home that already exists on its foundation will be based on the lowest of:
    - the sales price of the manufactured home and land;
    - the current appraised value of the manufactured home and land; or
    - if the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
      - the current appraised value of the land, or
      - the lowest price at which the land was sold during that 12-month period (if there was such a sale)
  - Existing manufactured home being sold to a consumer by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivision, the LTV ratio will be based on the lower of:
    - The sales price of the manufactured home and land, or
    - The current appraised value of the manufactured home and land.

#### Limited Cash-Out/Rate & Term Refinance

- RT to buy out owner's interest: Written agreement must be legible and signed/dated prior to or at application. All other Fannie Mae requirements must be met.
- >95% LTV requires the lender to document the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from any of the following:
  - The current servicer,
  - Fannie Mae's Loan Lookup tool, or
  - 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 any junior liens related to the purchase of the subject property
  - Proceeds can be used to pay off an existing first lien mortgage that includes a deferred balance

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- A deferred balance that is a second lien is not eligible for a limited cash-out refinance (refer to cash-out section below)
- 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. Refer to Fannie Mae Chapter B5-4.2-02 for all requirements.

#### Loan Purpose: Cash-Out

- Student Loan Cash-Out Refinances are eligible. Must meet Fannie Mae requirements. See Fannie B2-1.2 for complete details.
- Any existing first mortgage being paid off through the transaction must be at least 12 months old as measured from the note date of the existing loan to the note date of the new loan. This requirement does not apply
  - When buying out a co-owner pursuant to a legal agreement
- At least one borrower must have been on title for at least 6 months; measured from settlement date to disbursement date (the time spent in borrower's majority-owned or borrower controlled limited liability corporation (LLC) is included, unless
  - the borrower that inherits or was legally awarded (by divorce, separation, or dissolution of a domestic partnership) the property, or
  - Delayed financing is met.
- A refinance transaction that is paying off an existing first mortgage lien and a second lien created due to a payment deferral is eligible subject to the above seasoning requirements
- Fannie Mae's delayed financing provision is acceptable if all of the following requirements are met:
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points (subject to the maximum LTV/CLTV ratios for the transaction).
  - The original purchase transaction was an arms-length transaction.
  - The borrower(s) may have initially purchased the property as one of the following:
    - a natural person;
    - an eligible inter Vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    - an eligible land trust when the borrower is the beneficiary of the land trust; or
    - An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
  - The original purchase transaction is documented by the settlement statement, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar

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- alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.
- The sources of funds for the purchase transaction are documented (such as, bank statements, personal loan documents, HELOC on another property).
  - All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- Note for Delayed Financing: The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that all cash out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the new property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

#### Manufactured Home – Cash out

- Maximum 20-year term
- Borrower must own the manufactured home and land for a minimum of 12 months. If the manufactured home was installed after the land was purchased, seasoning begins when the manufactured home meets 12 months.
- Student Loan Cash-Out Refinances are eligible. Must meet Fannie Mae requirements. See Fannie B2-1.2 for complete details.
- Any existing first mortgage being paid off through the transaction must be at least 12 months old as measured from the note date of the existing loan to the note date of the new loan. This requirement does not apply
  - When buying out a co-owner pursuant to a legal agreement
- 6 months seasoning required; measured from settlement date to disbursement date (time spent in borrower's majority-owned or borrower controlled limited liability corporation (LLC) included in seasoning), unless
  - the borrower that inherits or was legally awarded (by divorce, separation, or dissolution of a domestic partnership) the property, or
  - Delayed financing is met.
- A refinance transaction that is paying off an existing first mortgage lien and a second lien created due to a payment deferral is eligible subject to the above seasoning requirements
- Fannie Mae's delayed financing provision is acceptable if all of the following requirements are met:
  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points (subject to the maximum LTV/CLTV ratios for the transaction).
  - The original purchase transaction was an arms-length transaction.
  - The borrower(s) may have initially purchased the property as one of the following:
    - a natural person;
    - an eligible Inter Vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    - an eligible land trust when the borrower is the beneficiary of the land trust; or
    - an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
  - The original purchase transaction is documented by the settlement statement, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar

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- alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.
- The sources of funds for the purchase transaction are documented (such as, bank statements, personal loan documents, HELOC on another property).
- All other cash-out refinance eligibility requirements are met and cash-out pricing is applied.
- Note for Delayed Financing: The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that all cash out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the new property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

#### 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

##### Acceptable MI Types:

- Borrower Paid Monthly
- Borrower Paid Single Premium
- Financed: Gross LTV cannot exceed Keystone's program maximum
- Split Premium
- Lender Paid Single Premium
- Reduced coverage

##### Unacceptable MI Types:

- Lender Paid Monthly
- Lender Paid Annual
- Borrower Paid Annual
- Any MI type not listed as acceptable

#### Occupancy

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- Primary Residence - 1-4 units
- Second Homes - 1-unit only
  - See Documentation section for when borrowers do not currently own a primary residence.
- Investment 1-4 unit and Primary Residence 2-4 unit properties:
  - When using rental income to qualify from a subject property, the borrower must own a principal residence or document a reasonable current housing expense.
  - See Documentation section for when borrowers do not currently own a primary residence.
  - Manufacture homes are not eligible for Investment properties

### 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

- Multiple width manufactured home
- All homes must be attached to a permanent foundation and legally classified as real property
- The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer’s lot as a new unit.
- Minimum of 12 feet wide and 400 square feet of gross living space
- The towing hitch, wheels, and axles must be removed
- Fee Simple land ownership only

### Property: Ineligible Types

- Cooperatives
- Condotels
- Hotel Condominiums
- Timeshares
- Working Farms and Ranches

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- 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
- Turn-key investment properties. See Property Turn-key Investments section for additional details.
- New construction and gut rehab condos are not allowed, unless final PERS approved with no conditions.

#### Manufactured Homes – Ineligible Types

- Single Width Manufactured Home
- Manufactured home NOT affixed to the land or not real property
- Located in a mobile home park or other area where the borrower does not own the land
- Co-ops
- Land trusts, including Community Land trust
- 2-4 units
- Homes located on leasehold estates, unless located in a Fannie Mae-approved condo project
- Note: Keystone will not submit for PERS approval
- Properties with accessory dwelling unit(s)
- Properties that have been moved from a previously installed location

#### 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.
- Additional due diligence may be required 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 may require an additional value product to support the subject appraised value in instances of greater than 20% appreciation.

#### Property: Maximum Number of Financed Properties

##### Fannie Mae:

- The loan must comply with Fannie Mae's limitations on the maximum number of financed properties.
- Fannie Mae has imposed minimum credit score, reserves requirements. Refer to the Fannie Mae Seller Guide, section B2-2- 03 for details.

##### Freddie Mac:

- The loan must comply with Freddie Mac's limitations on the maximum number of financed properties:
  - owner-occupied: unlimited
  - second home and investment property: ten
- When the borrower owns 7-10 financed properties:

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- LPA accept required
- Minimum 720 credit score

### Property: Turn-key Investments

Purchase or refinance transactions involving turn-key investment, or other similar arrangements, are not eligible for funding by Keystone. Characteristics of a Turn-key property include but are not limited to:

- The property seller is an LLC (or other entity) that purchases distressed properties and re-sells to borrowers at a non-distressed valuation.
- Property seller or a related entity enters into an agreement to manage the property on behalf of the buyer including marketing, tenant screening, rent collection, maintenance, etc.
- Buyer frequently lives out-of-the-area from the subject property.

### Ratios

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

Loans with DTI exceeding 50%, regardless of AUS decision are ineligible

Keystone allows non-occupant co-borrower blended ratios in accordance with Freddie Mac guidelines (Freddie Mac only)

### 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

When the borrower has a history of owning rental property, net rental income or loss is calculated by:

- The lessor of the gross rent (minus a 25% expense factor) or the market rent established by the appraiser for properties not reflected on the borrower's tax returns.
- When the property is reflected on the borrower's tax returns, analyze the borrower's cash flow and calculate the net rental income (or loss), making sure that depreciation or any interest, taxes, or insurance expenses were added back in the borrower's cash flow analysis.
- The full PITI for the rental property must be factored into the amount of the net rental income or loss.
- When the borrower does not have a history of owning rental property, follow the Fannie Mae requirements.

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## Reserves

- DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.
- If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:
  - 2% of the aggregate UPB if the borrower has one to four financed properties,
  - 4% of the aggregate UPB if the borrower has five to six financed properties, or
  - 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).
- The aggregate UPB calculation does not include the mortgages and HELOCs that are on the subject property, the borrower's principal residence, properties that are sold or pending sale, and accounts that will be paid by closing (or omitted in DU on the online loan application).
- Note: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the online loan application.

## 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.

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Fannie Mae Matrix

Agency	Fannie Mae DU Approval			Fannie Mae DU Approval		
Purpose	Purchase and Rate Term			Cash Out Refinances		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
High Balance or transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	1 Unit	Fixed: 97% ARM: 95%	AUS Cert with minimum Credit Score of 620	1 Unit	80%	AUS Cert with minimum Credit Score of 620
	2 Units	95%		2-4 Units	75%	
	3-4 Units	95%				
Second Home			Second Home			
Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs			
Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score	
1 Unit	90%	AUS Cert with min 620	1 Unit	75%	AUS Cert with min 620	
Investment Property			Investment Property			
Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs			
Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score	
1 Unit	85%	AUS Cert with min 620	1 Unit	75%	AUS Cert with min 620	
1 Unit R/T Refi	75%		2-4 Units	70%		
2-4 Units	75%					
Loans with Community Seconds may be eligible up to 105% CLTV			Loans with Community Seconds may be eligible up to 105% CLTV			

Freddie Mac Matrix

Agency	Freddie Mac - LPA Accept			Freddie Mac - LPA Accept		
Purpose	Purchase and Rate Term			Cash Out Refinances		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs		
LTV/TLTV over 95% must qualify for Freddie Mac Home One	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	1 Unit	Fixed: 97% ARM: 95%	AUS Cert with minimum Credit Score of 620	1 Unit	80%	AUS Cert with minimum Credit Score of 620
	2 Units	85%		2-4 Units	75%	
	3-4 Units	80%				
Second Home			Second Home			
Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs			
Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score	
1 Unit	90%	AUS Cert with min 620	1 Unit	75%	AUS Cert with min 620	
Investment Property			Investment Property			
Fixed Rate and Fixed Period ARMs			Fixed Rate and Fixed Period ARMs			
Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score	
1 Unit	85%	AUS Cert with min 620	1 Unit	75%	AUS Cert with min 620	
2-4 Units	75%		2-4 Units	70%		
105% TLTV allowed with Affordable Second Only. Affordable Second may not be a HELOC			105% TLTV allowed with Affordable Second Only. Affordable Second may not be a HELOC			

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Manufactured Home Matrix

Agency	Fannie Mae DU Approval			Fannie Mae DU Approval		
Purpose	Purchase and Rate Term			Cash Out Refinances		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate			Fixed Rate		
High Balance or transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	<b>1 Unit</b>	<b>Fixed: 97% (MH Advantage)</b>	<b>620</b>	<b>1 Unit</b>	<b>65%</b>	<b>620</b>
Max CLTV/HCLTV is 97% regardless of secondary financing source.	Second Home			Second Home		
	Fixed Rate			Fixed Rate		
	Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score
	<b>1 Unit</b>	<b>90%</b>	<b>AUS Cert with min 620</b>	<b>Not Eligible</b>		
	Investment Property			Investment Property		
	Fixed Rate			Fixed Rate		
Property Type	LTV/TLTV	Min Credit Score	Property Type	LTV/TLTV	Min Credit Score	
<b>Not Eligible</b>			<b>Not Eligible</b>			

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