



AAA Capital Investment, Inc.

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Subject: Updated Requirements for Agency Loans

To: All Customers

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We are aligning with the Agency's updated guidance issued recently. For all agency loans, these requirements are effective immediately.

1. Cash-out refinance transactions

All borrowers must occupy the subject property for cash-out refinance transactions when secured by a primary residence.

2. Self-employment - Fannie Mae

(1) Length of self-employment

In most instances, a 2-year history of the borrower's prior earnings of self-employment is required as a means of demonstrating the likelihood that the income will continue to be received. When the Borrower has been self-employed for less than two years, prior to considering the income for qualifying purposes, at a minimum the signed personal and business federal income tax returns must reflect a minimum of 12 months of self-employment income from the current business to consider qualifying income with less than a two-year history of self-employment. Requirements for supporting the history of receipt of prior income at the same (or greater) level in a similar field or occupation as the current business still applies.

(2) Tax return requirements

Only One-year of personal and business tax returns will be required when all self-employed businesses used for qualifying income have been in existence for five years and the borrower has had a 25% or greater ownership interest for the last five consecutive years.

- All businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-employment income sources. For multiple businesses, the most restrictive requirements apply.
- For partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the application. If the business was in existence prior to the borrower having 25% or ownership, then the leader must demonstrate the borrower has had 25% or more ownership for at least five years consecutively.

- for sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the application for the number of years the business has been in existence.
- Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the application and is supported by the most recent year tax returns. Documentation must be obtained through a reliable source, such as an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, or partnership agreements.

When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if:

- the borrower is using personal funds to pay down payment and closing costs and satisfy applicable reserve requirements,
- the borrower has been self-employed in the same business for at least five years (requirements noted above), and
- the borrower's individual tax returns show an increase in self-employment income over the past two years from the respective business.

3. Rental Income

(1) Fannie Mae - Significant changes include:

- Reconciling Partial of No Rental History on Tax Returns to address requirements based on when the property in question was placed into service.
- Monthly Qualifying Rental Income updates to address the amount of eligible rental income for both subject and non-subject rental properties depending on if the borrower has a current housing expense, length of rental management history and/or receipt of rent from the property.
- When a lease agreement is provided to document rental income, subject and non-subject rental properties, one of the following is required:
 - a. Form 1007 or form 1025 must support the income reflected on the lease agreement or
 - b. The lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments.

(2) Freddie Mac - Significant changes include:

- Leases no longer require a term length of one-year to be eligible. All leases must be current and fully executed.
- Newly executed leases will require the first rental payment due date to be no later than the first payment due date of the subject Mortgage.
- Two months receipt of rental income, when applicable, will require evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution or transferred into a third-party money transfer account owned by the borrower.
- Receipt of the security deposit and first month's rent will be permitted in lieu of the two-months' rent receipt, as applicable.