



# Non-QM | Income Direct

Alternative Documentation: 1 Year Employment  
Documentation, Bank Statements, Asset Qualification & VOE



# Income Direct – Program Highlights

- 5 Program Options Available
  - 1 Year Employment Documentation (W-2, tax returns etc.)
  - 12 or 24 months Bank Statements (Allowed for Business, Personal or Combined Business and Personal)
  - 2 months Bank Statements with 12 or 24 month Tax Preparer Provided P&L
  - Asset Qualifier – For High Net Worth Borrowers
  - VOE Only Program – Non Self-Employed Only



# Income Direct – Selling Proposition

- What to Sell...
  - Credit Scores as low as 620
  - LTV's up to 90%, DTI as high as 50%
  - Loan Amounts up to \$3,000,000
  - 40 year and I/O available – great to help qualify the borrower
  - Primary and Second homes only.
  - Non-occupant co-borrowers may be allowed
  - Exceptions considered on a case by case basis with excellent comp factors
  - Documentation requirements vary depending on the needs of the borrower. Don't provide more documentation than necessary.
  - Set allowable NSF's has been removed and replace with "Excessive" on the Bank Statement programs. Multiple instances of overdrafts that occur on the same day are counted as 1 instance.



# Program Max LTVs, loan amounts and FICO

Program Max LTVs		1 Year Employment Doc 24 Month Bank Statements 12 Month Bank Statements		2 Month Bank Statements		Asset Qualifier		VOE	
Loan Amount	FICO	Purch. & R/T	Cash Out	Purch. & R/T	Cash Out	Purch. & R/T	Cash Out	Purch. & R/T	Cash Out
≤ \$1,500,000	720	90%	85%	85%	85%	80%	N/A	80%	70%
	680	90%	85%	85%	85%	80%	N/A	80%	70%
	660	85%	80%	80%	80%	80%	N/A	75%	70%
	640	80%	80%	N/A	N/A	80%	N/A	N/A	N/A
	620	80%	80%	N/A	N/A	N/A	N/A	N/A	N/A
\$1,500,001 - \$2,500,000	720	85%	75%	85%	75%	80%	N/A	70%	65%
	680	80%	75%	80%	75%	80%	N/A	70%	65%
	660	80%	75%	80%	75%	80%	N/A	N/A	N/A
	640	80%	70%	N/A	N/A	80%	N/A	N/A	N/A
	620	80%	70%	N/A	N/A	N/A	N/A	N/A	N/A
\$2,500,001 - \$3,000,000	720	80%	75%	70%	60%	N/A	N/A	N/A	N/A
	680	80%	75%	70%	60%	N/A	N/A	N/A	N/A
	660	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	640	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	620	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A



# Income Direct – Requirements

Requirements					
Program Requirements		Property Overlays	Max LTV	Products	
Min Loan Amount	\$100,000	Condominiums	85%	5/1 ARM	7/1 ARM 30 Year Fixed
Max Loan Amount	\$3,000,000	Non-warrantable condos	80%	5/1 ARM-IO	7/1 ARM-IO 40 Year Fixed-IO***
Max Cash Out	\$1,000,000	2-4 units	80%	***40 Year Fixed-IO not available on Asset Qualifier	
Cash Out > \$500,000	Reduce LTV by 5%	Rural, Log Homes, Modular	80%	<b>IO Period</b>	<b>Amort Term</b> <b>Final Maturity</b>
Residual Income	\$2,500 plus \$150 per dependent			10 Years	30 Years 40 Years
Max DTI	50%	<b>Other Overlays</b>		10 Years	20 Years 30 Years
<b>Credit requirements</b>		Interest Only	Max LTV ≤ 85%	<b>ARM Margins &amp; Caps</b>	
Mortgage History	1x30x12			5/1 ARM	Margin: 3.50 Caps: 2/2/5
Foreclosure Seasoning	36 Months	Second Homes	Max LTV ≤ 80%	7/1 ARM	Margin: 3.50 Caps: 5/2/5
Short Sale/DIL Seasoning	36 Months	<b>Reserve Requirements</b>		Index = 1 Year LIBOR, Floor = Margin	
Chapter 13 BK Seasoning	36 Months	≤ \$1,000,000	3 Months	<b>Qualifying Rate</b>	
Chapter 7/11 BK Seasoning	36 Months	\$1,000,001 - \$1,500,000	6 Months	Fixed = Note Rate	
0x60x12 Mortgage History*	Reduce LTV by 5%	> \$1,500,000	12 Months	ARM = Greater of Note Rate or Fully Indexed	
24 Month Credit Event Seasoning*	Reduce LTV by 5%	First Time Homebuyer	Min 6 Months	<b>Qualifying Payment</b>	
* Only allowed on Primary Properties, not available on Asset Qualifier or WVOE income types. Max Loan Amount \$1.5MM. No Non-Occupant co-borrowers		Second Homes	Min 6 Months	ALL: use Qualifying Rate for calculating PITIA;	
		2 Month Bank Statements	Min 6 Months	Interest-Only: qualify using the fully amortized	
		Asset qualifier, WVOE	Min 6 Months	payment with the Qualifying Rate over the fully	
		LTV > 80% and/ or DTI > 43%	Min 6 Months	amortized term of the loan	



# Income Direct – Other Requirements

Other Requirements	
Occupancy	Primary Residence, Second Homes
Property Types	SFR, PUD, Townhome, Condominium, 2-4 Unit, Non-Warrantable, Modular, Rural & Log Homes
Cash Out	Cash Out can be used for reserve requirements and/or to pay off debt for qualifying
Subordinate Financing	Max 90% CLTV (Institutional seconds only)
First Time Homebuyer	6 month reserves required
Non-Occupant Co-borrower	Max LTV 80%, max loan amount \$1.5MM, no cash out allowed, Max DTI 43%, Primary only
Citizenship	US Citizen, Permanent Resident Alien & Non-Permanent Resident Alien (with US credit)
Credit	3 tradelines reporting for 12+ months or 2 tradelines reporting for 24+ months all with activity in the last 12 months
	Qualifying FICO = mid FICO of the primary wage earner used for grading and pricing
Compliance	Escrows required for taxes and insurance • Fully documented ATR •
	Compliance with all applicable federal and state regulations
Seller Concessions	Up to 9% towards closing (LTV ≤ 75%), 6% towards closing (LTV > 75%)
Ineligible States	AK, MO in addition to states where Nations Direct Mortgage, LLC is not licensed to conduct business.



# Income Direct – Income Requirements

- **1 Year Employment Documentation**

- Wage-Earners: the most recent year W-2 **and** pay stub(s) covering the most recent 30-day period providing year-to-date earnings
- Self-Employed Full Doc: the most recent year filed federal income tax returns (personal and business; extensions are not allowed) **and** year-to-date P&L if end of applicable tax year is > 120 days from closing
- Self-Employed Bank Statements: 12 months complete personal or business bank statements from the same account



# Income Direct – Income Requirements

## 12 or 24 months Personal & Business Bank Statements Combined

- The deposits are analyzed and averaged to determine monthly income.
- The expense ratio factor applies →
- If the type of business operates more efficiently or typically has a materially different expense factor (higher or lower than the expense ratio factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income.
- The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.

Expense Ratio Factor			
Number of Employee/FTE	0	1-5	>5
Service Business	25%	40%	60%
Product Business	45%	60%	80%





# Income Direct – Income Requirements

- **12 or 24 months Personal & Business Bank Statement Separate**
  - The borrower is to provide the most recent 12 or 24 months consecutive personal bank statements and three (3) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
  - The deposits are analyzed and averaged to determine monthly income.
  - No expense factor
  - When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.
  - A copy of the trust or trust cert is required



# Income Direct – Income Requirements

- **12 or 24 months Business Only Bank Statements**
  - The deposits are analyzed and averaged to determine monthly income.
  - The expense ratio factor is applied to business related deposits.
  - If the type of business operates more efficiently or typically has a materially different expense factor, then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
  - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income.



# Income Direct – Income Requirements

- **2 mos. Business Only Bank Statement**

- Two (2) months most recent business bank statements with 12 or 24 month P&L prepared by CPA, CTEC (California Tax Education Council) or EA (Enrolled Agent).
- Monthly income derived from the P&L and verified by the bank statements.
- Expenses must be reasonable for the type of self-employment.
- The P&L is used for qualifying; revenue must be supported by the bank statements provided.
- Annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.
- Example: Revenue per P&L is \$100,000 per month and total business deposits into the bank account are \$80,000 per month, the loan would meet the requirement. If the deposits were less than \$75,000 the loan would not meet the guidelines.



# Income Direct – Income Requirements

- **Asset Qualification aka Asset Depletion**
  - Requires 6 consecutive months of bank statements
  - Increases in the bank accounts may require supporting documentation
  - Qualified Assets:
    - 100% of checking, savings and money market accounts
    - 70% of the remaining value of stocks & bonds
    - 60% of retirement assets (excludes CalPERS type of accounts not accessible until retirement or death)
  - Qualifying calculation is based on verified assets (No DTI)
    - Verified assets must be sufficient to cover the new loan amount, down payment, closing costs, reserves and 5 years of current monthly obligations (revolving/installment/negative cash flow on other R.E. owned).



# Income Direct – Income Requirements

- **VOE Only**

- Must have 2 years continuous employment in the same line of work
- Not available for self-employed borrowers
- Income must make sense for occupation
- The Underwriter will do research on the employer and employment location.
- If there are red flags present, the Underwriter may request additional supporting documentation including but not limited to tax returns, checkstubs, W-2's
- VVOE is required
- Works best for employers that report to The Work Number or similar 3<sup>rd</sup> party verification companies



# Income Direct – Credit Requirements

MINIMUM TRADELINES			
	OCCUPANCY	TRADELINE HISTORY	MINIMUM STANDARDS
STANDARD TRADELINES	Primary and Second Homes	3 tradelines reporting for 12+ months with activity in last 12 months or	0X60 for most recent 12 months
	Investment	2 tradelines reporting for 24+ months with activity in last 12 months	

Judgments & Tax liens must be paid prior to or at closing. Court ordered judgments may remain open with: Copy of repayment agreement, minimum of 3 months on the repayment plan with timely payments and maximum payment under the plan is included in the DTI.



# Income Direct – Credit Requirements

- Outstanding tax liens may remain open on purchase transactions only (additional LTV restrictions may apply) subject to:
  - A copy of the repayment agreement is obtained;
  - A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided (cannot be prepaid);
  - The maximum payment required under the plan is included in the debt-to-income ratio; and
  - The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position.



# Income Direct – Credit Requirements

- BK/Recent Housing Event (RHE) Seasoning
  - All Doc types (1 Year Employment Doc, 24 months Bank Statement, 12 months Bank Statements, 2 months Bank Statements, Asset Qualifier, VOE only)
    - 24-36 months
- Mortgage Lates
  - For the following Doc Types: 1 Year Employment, 24 months Bank Statements, 12 months Bank Statements, 2 months Bank Statements, Asset Qualifier
    - 1x30x12 or 0x60x12
  - For VOE only
    - 0x30x12 or 0x60x12





# Income Direct - Assets

- Funds to close:
  - All required funds to close must be sufficient to meet down payment, closing costs and reserves.
  - Funds must be sourced and seasoned for 2 months.
- Reserves:

## 10.2 RESERVES

Reserves are measured by the number of months of housing expense a borrower could pay using his or her financial assets. See the applicable Nations Direct Mortgage Matrix for complete reserve requirements. The highest reserve requirement, rather than a cumulative total, should be used when a transaction has multiple required reserves.

Net proceeds from cash-out transactions can be used to meet the reserve requirement. Gift funds may not be considered.

Additional reserves are required when the following situations are present:

- [Multiple Financed Properties](#) : 2 months for each additional property
- [Use of Rental Income Without a Lease](#): 3 months in addition to standard requirement
- [First-Time Homebuyer](#): 6 months
- [Limited Tradelines](#): 6 months
- [No Housing History or Less Than 12 Months Verified](#): 6 months



# Income Direct - Assets

- Acceptable sources of assets
  - Borrowed secured funds – Need terms of repayment and include in DTI (Full doc and Bank Statements only)
  - Business assets
    - Minimum 50% ownership in the business and bank asset(s)
    - Acknowledgement letter from other account holders on use of the assets and confirming borrowers access to the funds
    - CPA letter indicating the use of the business assets will not have an effect on the business
  - Depository accounts
    - Savings, checking, money market, CD etc.
    - Non-borrowing co-account holders must state borrower has full access to the funds



# Income Direct - Property

- Minimum Property Standards:
  - Be improved real property
  - Be designed and available for year around residential use
  - Contain a kitchen and a bathroom
  - Contain a minimum of 600 square feet of gross living area
  - Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
  - Average or better than average condition
  - Represent the “highest and best” use of the subject
  - Be free of all health and safety violations
  - NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property
  - Must have a remaining economic life of 30 years



# Income Direct – Property

PROPERTY ELIGIBILITY	
PROPERTY TYPE	ELIGIBLE
Single-Family Residence	Yes
Planned Unit Development (PUD)	Yes
Townhomes	Yes
2-4 unit Multi-Family Properties*	Yes
Manufactured Homes	No
<a href="#">Modular Homes*</a>	Yes
<a href="#">Condominium (low-rise and high-rise)*</a>	Yes
<a href="#">Site Condominium</a>	Yes
<a href="#">Non-Warrantable Condominiums*</a>	Yes
Co-operative Units	No
Condotels or Condo Hotels	No
Mixed-Use Properties – Fannie Eligible	Yes
<a href="#">Log Homes*</a>	Yes
Farms or Hobby Farms	No
Properties subject to Rent Control regulations	No
Unique Properties (Earth Homes, Berm Homes, Dome Homes, etc.)	No
<i>*See the applicable Nations Direct Mortgage Matrix for LTV restrictions.</i>	



# Income Direct – Property

- Appraisal Review Process:

The Appraisal Review Process may require a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include:

- AVM (must contain a value and comparative sales data to support the valuation result)
- Desk Review (must contain a value and comparative sales data to support the valuation result)
- Field Review
- Second Full Appraisal (appraisals must be completed by different, independent appraisers and the lower of the two appraised values used to determine value)

The all transactions not requiring a second appraisal require a Clear Capital CDA

The following transactions require a 2nd full appraisal:

- Approved loan amount exceptions (when exceeding the max loan amount available per the matrix)
- Loan amounts > \$1,500,000

Nations Direct Mortgage reserves the right to request additional appraisal products at their discretion based on the review of the appraisal and loan file.

A 10% tolerance is permitted for secondary review products. If the review product value is more than 10% below the appraisal value, the lower of the two values must be used.

If the tolerance is exceeded, the underwriter may choose to order an additional review product of a higher-level review. The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the variance is greater than 10%, a second full appraisal is required.



# Income Direct – Wrap Up

- Miscellaneous considerations
  - These are, for the most part, “story” loans.
  - Tell us the truth.
  - Use the NQM Helpdesk to review the bank statements prior to submission.
  - Have the Broker provide a cover letter addressing any anomalies in the file such as:
    - Divorce issues, employment changes, source of assets if all assets are not verified or large increases are not yet paper trailed.
  - Don’t provide more documentation than needed.
    - If we have a S/E borrower who is using 12 months personal and 3 months business bank statements, do not provide us with 12 months business bank statements. This would open the door to review for NSF that may have occurred over 3 months ago.



# Income Direct – Wrap Up

- Bank Statement Borrowers – possible speed bumps
  - Out of the ordinary large deposits may require supporting documentation
  - Expectation is for the cash flows (deposits) to be stable over the 12-24 months. Decreasing trends may be an issue.
  - Beginning and ending balances are expected to be stable or increasing over the 12-24 months
  - Not only are we looking at deposits, but we are also looking at withdrawals. We will look to make sure there are no undisclosed alimony/child support, IRS tax lien payments or expenses that do not support an expense factor being used.
  - The business and cash flows must make sense.
  - Max 3 NSF guideline **has been removed** and replaced with “excessive”. GOOD NEWS!



Learn More: [www.myndm.com](http://www.myndm.com)

Sign Up: [www.myndm.com/sign-up](http://www.myndm.com/sign-up)

DirectQual: [www.directqual.com](http://www.directqual.com)

Non-QM Help Team:

See product matrix for all details at [www.myndm.com/products](http://www.myndm.com/products). Pricing and product offerings subject to change without notice. This information is intended for the exclusive use of mortgage professionals and is not to be distributed to consumers. The information is for business and professional use only and is not intended as an advertisement as defined in Regulation Z, Section 1026.2. Nations Direct Mortgage, LLC is not part of or associated with HUD, FHA, or the Federal Government. Rates, terms, and programs subject to change without notice. All loans must satisfy Nations Direct Mortgage underwriting guidelines. Additional terms and conditions may apply. © Nations Direct Mortgage, LLC, NMLS #109738. Rev. 61319.

