Non QM

Residential & Investor Guidelines

Version v07272021

SECTION 1: GENERAL PURCHASE ELIGIBILITY

Ability to Repay (ATR)

For mortgage loans made for a personal, family or household purpose covered by the federal Truth in Lending Act ("TILA"), the ATR rule requires lenders to demonstrate they have made a good faith determination based on verified third-party records that the Borrower has sufficient income and assets to repay the loan according to its terms, generally considering the following eight criteria:

- Current or reasonable expected income or assets.
- Current employment status.
- Monthly payment on the covered transaction.
- Monthly payment on any simultaneous loan.
- Monthly payment for mortgage-related obligations.
- Current debt obligations, alimony and child support.
- Credit history; and
- Debt-to-Income Ratio.

Lender will not originate a loan subject to the ATR rule unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR.

Loan Program Types

- Fully Amortized Products - See Program Matrix
  - .
- Interest Only Products - See Program Matrix
  - Interest Only Period of 10 Years for all product types

Qualifying Rate – Residential Program

- 30 Year Fixed – Note Rate.
- Interest Only – Qualify over the remaining fully amortized period.

Loan Purpose

Purchase, Cash Out and Rate & Term Refinance transactions.

Fannie Mae Guideline Reference

For underwriting purposes, if a particular topic or guideline is not specifically addressed in these guidelines, the applicable topic/guideline will default to standard Fannie Mae underwriting guidelines as defined in Fannie Mae Selling Guide Part B– Origination through Closing https://www.fanniemae.com/content/guide/ selling/b/index.html

Zero Fraud Tolerance

Lender has a zero-tolerance policy as it relates to Borrower fraud. In our effort to prevent and detect fraud Lender does the following, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-T, etc. Loans containing fraudulent documentation or information will immediately be declined. If there is a determination of fraud Lender will pursue to the fullest extent of the law.

Fair Lending Policy

Lender operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act (“ECOA”). The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. ECOA prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the Borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the Borrower has in good faith exercised any right under the Consumer Credit Protection Act. Lender fully supports the letter and spirit of both of these laws and will not condone discrimination in any mortgage transaction.

Points and Fees

Points are limited to a maximum of 5% on all transactions.

Higher Priced Mortgage Loan (HPML) Eligibility

Lender will originate Higher Priced Mortgage Loans provided all required disclosures are provided, and compliance with the HPML appraisal rule is met. For all HPML’s an escrow account for property taxes and insurance must be established and funded for a minimum of 5 years.

Impound Accounts

Required for HPML loans ONLY.

HOEPA High Cost (Section 32) Loans

High Cost (Section 32) Mortgage Loans as defined by applicable local, state, federal and secondary market regulations are not allowed.

Ineligible Loan Features

The following features are not allowed:

- Negative Amortization.
- Balloon Payments.

Vesting

Ownership must be fee simple in name of individual for the Residential Program. See Investor Program overlays for vesting in the name of an LLC, Partnership or Corporation.

Power of Attorney

A limited Power of Attorney (POA) is acceptable when following requirements are met:

- POA is specific to the transaction
- Recorded with the Mortgage/Deed of Trust
- Contains an expiration date
- Used only to execute the final loan documents
- Borrower who executed the POA signed the initial 1003
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney
- Not permitted on cash-out or Foreign National transactions

Guideline Exceptions

Exceptions to published guidelines may be considered on case by case scenario with adequate and eligible compensating factors.

Minimum/Maximum Loan Amounts

See Program Matrices for loan limits based on Credit Score and LTV.

Assumability

Loans may not be assumed.

Non ARM's - Length Transactions

Ineligible.

Property Eligibility

Ineligible properties include:

- Manufactured Homes
- Rural Properties
- Co-operative units
- Condotels or Condo Hotels
- Mixed-Use Properties
- 5+ Units
- Greater than 10 acres acceptable on a case by case basis.

Eligible properties include:

- Single-Family Residences
- Planned Unit Development Type E (HOA Controlled) and Type F (Builder Controlled)
- Townhomes
- 2-4 Unit Multi-Family Properties
- Condominium (low-rise and high rise)
- Non-Warrantable Condos – see guideline section below
- Site Condominium

- Tennants in Common
- Assisted Living / Day Care with no modifications
- Properties with up to 10 acres

Non Warrantable Condos

Non-warrantable condominiums are allowed. A completed Condominium Project Questionnaire is required.

NON-WARRANTABLE CONDOS CHARACTERISTIC CONSIDERATIONS

COMMERCIAL SPACE

- Commercial space in project up to 40%

COMPLETION STATUS

- The project, or the subject's legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
- 30% presale is allowed.

CONDOTELS

- True Condotels with onsite reservation desks are prohibited. Short-term vacation rental projects will be considered on a case-by-case basis.

DELINQUENT HOA DUES

- No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.

INVESTOR CONCENTRATION

- Investor concentration in project up to 70%. Higher percentages may be considered on investment property transactions when an established history of a high percentage of rental units in the condo project can be demonstrated.

HOA CONTROL

- The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.

LITIGATION

Projects involved in litigation are acceptable as long as the pending lawsuit(s) are not structural in nature, do not affect the marketability of the units and:

- Potential damages do not exceed 25% of the HOA reserves, OR
- Documentation must be provided by the insurance carrier or the attorney representing the insurance carrier that the insurance carrier has agreed to provide the defense and the association's insurance policy is sufficient to cover the litigation.

SINGLE ENTITY OWNERSHIP

- Single entity ownership in project up to 30%.

Loans to One Borrower

Loans to one Borrower from Lender may not exceed 5 properties and/or $10,000,000. Exceptions to this policy will be accepted on a case by case basis.

Maximum Financed Properties

No limit.

Adequate and Stable Income

Employment should be stable with at least a two (2) year history in the same job or in the same line-of-work. Self-employed Borrowers must have been in business for at least two (2) consecutive years.

The Borrower(s) must explain in writing any employment gaps that exceed two months. Borrowers must be currently employed at time of Funding. A Verbal Verification of Employment Certification is required to be performed for all applicants verifying the applicant's current employment status as active.

Debt-to-Income Ratio Requirements

- See program matrices

Subordinate Financing

- See program matrices

Age of Documents

With the exception of the appraisal which must be no more than 120 days from the Note Date, all Credit Documents including credit reports, employment, income and asset documentation must be no more than 90 days from the Note Date.

SECTION 2: INCOME & DOC TYPE

Wage Borrowers (Full-Doc)

- Salaried income from employment should be from related fields if the borrower has held multiple jobs. In some cases, an employer does not offer year-round employment for a certain position, such as building trades, teachers or farm workers (seasonal income). The evaluation of stable earnings must be based upon whether the Borrower(s) is able to consistently generate a similar amount of income from the employers listed.
- If the income is determined to be stable, the next step is to develop an income figure from the verified information which represents dependable earnings as a basis for repayment of the loan.
- Special attention must be given to additional compensation in the form of overtime (OT), bonus, commission, or from other acceptable sources, so that the income used to qualify is truly representative of what the borrower will continue to earn. Variances in earnings from these sources must be carefully evaluated to determine if income is stable.
- For salaried borrowers, pay stubs covering at least one month's year-to-date (YTD) earnings along with the most recent years W2 statement is required to verify the income.
- Second job income will require receipt of pay stubs covering at least one (1) month's year-to-date (YTD) earnings and most recent years W-2 statement.
- Borrowers with commission, bonus or overtime (OT) income greater than 25% of base income will require pay stubs and W2's covering the most recent two (2) year period. Bonus, overtime and commission income will require a written Verification of Employment (VOE) to confirm a two (2) year average and proof of continuance.
- 2106 Expenses may be omitted for wage earners.
- With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the "Employment and Other Sources of Income" section of the Fannie Mae Single Family Seller Guide for additional information regarding income documentation and qualification guidelines.
- A signed 4506-T and WAGE ONLY W2 tax transcripts covering the income documented years is required when W2 income is used to qualify. If rental income is being used to qualify or > 25% of any borrowers pay comes from commissions, bonus or overtime, FULL 1040 tax transcripts are required.

Note: Borrowers who are on a temporary leave from their current job for reasons such as maternity or parental leave, short-term disability, and other temporary leave types that are considered acceptable by law and/or the Borrower's employer will be considered for eligibility on a case-by-case basis, subject to Fannie Mae guidelines for Temporary Leave Income as defined in Fannie Mae's Selling Guide B3-3.1-09, Other Sources of Income.

Self-Employed Borrowers (Full-Doc)

Self-Employed Borrowers are identified as Sole Proprietors filing a Schedule C or any individual(s) who has ownership interest in a business. The following factors must be considered when analyzing a self-employed Borrower:

- Self-Employed Borrowers must have been in business for at least two (2) years in order to be considered for qualification.
- Self- employed Borrowers will be required to provide the most recent years personal and business tax returns with all schedules, if applicable (i.e. Partnership, LLC, S-Corporation, or C- Corporation). 2 years of returns may be required if evidence of loss carryovers, etc.
- If more than 120 days has passed since the filing of the latest Schedule C or business tax return, a signed and dated year-to-date (YTD) unaudited profit and loss (P&L) statement is required.
- Evidence of the existence of the business for the past two (2) years is required and met with one of the following:
  - The underwrite of two years of tax returns rather than only the most recently filed.
  - The underwrite of only the most recently filed return along with either a CPA Letter or On-Line verification that the business has been in existence for 2+ years; ie: State Website, Business License, etc
- A signed 4506-T and Full 1040 tax transcripts covering the income documented periods is required.
- Self-Employment Income as a Secondary Source
  - Lender follows Fannie Mae's guidelines and does not require a written evaluation of self-employment income when the borrower is qualified using only income that is not derived from self-employment. Lender does not require the review or document income from secondary sources when that income is not needed to qualify. Business-related debt for which the borrower or co-borrower is personally obligated would likely be on their credit report and therefore already included in the debt-to-income ratio. As a practical consideration, borrowers with a primary source of income that is not derived from self-employment and is sufficient to cover the obligation have more flexibility and could discontinue a secondary self-employment activity should it prove unprofitable. Consequently, it is our view that if the income not derived from self-employment is sufficient to qualify the borrower, no further inquiry regarding any secondary business losses is required. https://www.fanniemae.com/content/faq/borrower-income-verification-faqs.pdf

Retirement Income – Yearly Receipt

May be considered qualifying income with evidence of the type of retirement income (e.g. Social Security, Pension, Annuity, 401K, etc.) One time or lump sum distributions from a retirement account will be calculated off the most recent Tax Return and/or 1099's. All retirement income must be likely to continue for at least the next 3 years.

Retirement Income – Monthly Receipt

- If the retirement income is newly established, verification of current receipt is not required. Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms. The income must commence prior to the Funding Date and must continue for at least the next 3 years.

- 100% of the accessible value of the Retirement Account may be used for qualification regardless of retirement age following Fannie/Freddie guidelines. The income must continue for at least the next 3 years.

Capital Gains and Losses

Capital gain or loss that is a one-time transaction will not be considered as a gain or loss in determining the income available to the Borrower(s). However, if the Borrower's business has a constant turnover of assets that produce recurring gains or losses, the capital gain or loss may be considered in line with the following:

- An average of the gains or losses for the last two (2) years as disclosed on the Borrower's Income Tax Form 1040, Schedule D, will be used to calculate the income.
- When the income from this source represents a substantial portion of the Borrower's income, the Borrower's tax returns for the past two (2) years must be reviewed (regardless of documentation type) to determine an accurate estimated of average earnings. For example, an asset sold during the year might be an income-producing asset, which could result in a reduction in future income.
- Borrowers must have an asset base in order to use capital gain or loss on an ongoing basis.
- If income is declining, most recent 12 months must be used.

Farm Income

Net farm income reported on the Borrower's income tax return (Schedule F) is eligible with the addition of depreciation, pension, amortization and depletion. Note: Farm income cannot be generated by the subject property as income producing farm properties are ineligible for purchase.

Fixed Income

This applies to income sources such as social security (including dependent's social security), disability payments (temporary or permanent), VA disability, Yearly or Monthly Distributed retirement/pension, or alimony/child support. If this income is used for qualification, evidence of income and probability that it will continue for at least three (3) years past the application date must be provided. **NOTE:** If the fixed income source is verified as non-taxable income, it may be adjusted or "grossed-up" by 125%. Non-taxable income that is not allowed to be grossed up includes Foreign Earned Income and Foster Care income.

Interest and Dividend Income

Interest and dividend income may be used for qualification if receipt has been verified for the past 12 months as a stable source of income and if additional verification is obtained as proof that the funds are still on deposit in the financial institution and/or investment portfolio account with the ability for the income to continue for the next three years. Income must be proportionately reduced if funds are used to meet reserve requirements.

Military Income

Income verified for clothing allowance, quarters allowance, hardship or hazard pay may be included as stable income if there is a likelihood of continuance. BAH and BAS allowances may be grossed up to 125% due to their non-taxable status. Other allowances may also be grossed up to 125% if documentation is provided evidencing the allowance is nontaxable.

Note Income

Note income is eligible for qualification, so long as a complete copy of the note (all pages) is provided, outlining the terms and conditions of repayment. Borrowers must provide evidence the funds have been received for the past 3 months. Acceptable evidence includes deposit slips, copies of signed federal tax returns that were filed with the IRS or copied of the borrower's bank statements that show consistent deposits of these funds. The repayment period must extend at least three (3) years past the application date of the loan.

Rental Income

Net cash flow for properties, other than the subject property, will be calculated using the Schedule E from the most recent filed tax returns.

A positive cash flow will be added to gross income; negative cash flow will be added to total liabilities and used to qualify the Borrower(s).

Room rents will not be considered as income for qualifying purposes.

Income received from rental properties will be calculated using one of the following methods:

- 100% of the rents received on the Schedule E less PITI for each property.
- If the subject property is a Rental the eligible rental income should be listed as Other Income on page 2 of the loan application.
- Departing Residence – An applicant looking to refinance his primary residence and whose previous home can be documented as his past primary residence may use rents received from the departing residence under the following circumstances
  - Current lease agreement required
  - Proof of rents received for the past 3 months via cancelled checks and/or bank statements
  - 75% of the rents received should be used.
  - See additional reserve requirements on page 16.
- Bank Statement Program: Rental properties listed on the Schedule of Real Estate should include the full PITI payment with $0 rents received. Rents received are assumed to be within the bank statement deposits. 100% of the rental deposit into the account may be used for qualification.

Trust Income

Trust income may only be derived from an irrevocable trust or a revocable trust where a Borrower who is the beneficiary has also established the trust. In order to verify trust income, a complete copy of the original trust agreement showing the terms and conditions of the income that will be received must be provided. In lieu of the copy of the trust agreement, a certification letter from the trust administrator may be obtained, outlining the total income paid to the Borrower, method of payment, duration of the trust and any non- taxable portion is required. Receipt of this income must be verified to continue for at least three (3) years past the date of the application.

With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the “Employment and Other Sources of Income” section of the Fannie Mae Single Family Seller Guide for additional information regarding trust income.

Retirement Account Distribution and Depletion

Lender follows Fannie/ Freddie guidelines in relation to the income stream being required to continue for 3+ years. The applicant may use monthly distributions or a depletion formula for loan qualification. Eligible assets include cash or cash equivalents and marketable securities (i.e. Certificates of Deposit, money market accounts, savings, stocks, bonds, and mutual funds).

- Stocks may be considered at 70% face value.
- Cash Accounts may be considered at 100% face value.
- Liquid retirement accounts may be considered at 100% of face value for those ages 59.5 or greater. For those under the retirement age, 70% of the face value may be depleted. Liquid Retirement Accounts may include accounts that have provisional access, including but not limited to a financing vehicle.

Monthly Distribution

- If the retirement income is newly established, verification of current receipt is not required. Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency, and pre-determined payment amount with the benefit verification letter, notice of award letter or other equivalent documentation from the payer that provides and establishes these terms. The income must commence prior to the Funding Date and must continue for a minimum of 36 month.

Asset Depletion

- All assets considered for AD must be verified with an account statement from the most recent 30-day period. When calculating the monthly qualifying income for DTI purposes, use the total eligible liquid assets divided over 36 months following Fannie/Freddie's requirement for 3 years of continuance.
- Any loan using Asset Depletion as the only source must use an 84 month depletion factor for DTI eligibility.

No Ratio Loan

The income and employment section of the application may be left blank and is not required if the parameters below are met while following the description of eligible assets as notated above. Total eligible assets must cover:

- 100% of the new Mortgage Note.
- The minimum reserve requirements per the program matrix.
- An additional 12 months of Total Payments used in the DTI determination.

Bank Statement Program

Lender offers its Bank Statement Programs to Self Employed Sole Proprietors and Business Owners with 25% or greater ownership. Borrowers utilizing bank statements may have a Standard Documentation Co-Borrower on the loan. Any borrower on the loan qualifying with Bank Statements will cause the loan to be considered a Bank Statement Program for pricing and review purposes.

Borrowers owning Corporations/Partnerships must verify that they own 25% or more of their existing business. Acceptable documentation includes:

- CPA letter verifying their ownership percent and that they have been filing self-employed tax returns for 2+ years. Articles of Incorporation/Operating Agreement may also be used to verify the ownership %.

Sole Proprietors are assumed to be 100% owners and must verify that they have been filing self-employed tax returns for 2+ years. Acceptable documentation includes:

- CPA Letter verifying that Self-Employed tax returns have been filed for the applicant for 2+ years.

Borrower(s) must also provide evidence of the existence of the business for at least two (2) years. Acceptable documentation includes:

- The underwrite of 24 months of “business” bank statements rather than the standard 12
- If only the minimum of 12 months of bank statements is used:
    - CPA letter verifying the business has operated for 2+ years OR,
    - On-Line verification that the business has been in existence for 2+ years, ie: State Website, Business License, etc.

NOTE: CPA letters must be within 45 days of the Note Date.

Business Narrative Letter

- Required for each business on the loan application. This letter should detail the product or service that the business sells or provides, how it generates and markets for its services and or products as well as the number of employees the business currently employs. In addition, due to the impact of COVID, this letter should also address any impact that the pandemic has had on its

12 Months Personal Bank Statements

- For any self-employed applicant
- Multiple bank accounts may be used
- Transfers between accounts or in from other accounts must be excluded
- Transfers from a business account into a personal account are acceptable. In this case the most recent Business Bank Statement must be included to verify the client owns the account.
- Profit & Loss: Not Required
- Income Calculation
  - [(Total Deposits) – (Disallowed Deposits)]/12

12 Months Blended Bank Accounts

- Designed for the Individual who deposits revenue streams into both Personal and Business Bank Accounts
- Any deposit into the personal account from the business account must be excluded as to not double dip.
- Deposits coming from sources other than the business must be deducted from the 12 month total. Examples include, but are not limited to: (i) deposits from Social Security; (ii) transfers from another account; (iii) tax refunds, Co-Applicants Wages, etc. These other sources may be fully documented and itemized on the loan application.
- All deposits in excess of 75% of the average monthly deposit must be explained with a signed letter by the applicant. Any deposits explained as non-business related must be excluded from the 12 month average calculation.
- A Bank Statement Calculation worksheet will be required for each Bank Statement Account
- Income Calculation Personal Bank Statements
  - [(Total Deposits) – (Disallowed Deposits)]/12
- Income Calculation Business Bank Statements
  - [(Net Income after 50% Default Factor or 3rd Party Verification) * (Ownership %)]/12

12 Months Business Bank Statements

- Multiple Business Bank Statements acceptable.
- Must own a minimum of 25% of the Corporation.
- Deposits coming from sources other than the business must be deducted from the 12 month total. Examples include, but are not limited to: (i) deposits from Social Security; (ii) transfers from another account; (iii) tax refunds, etc. These other sources may be fully documented and itemized on the loan application.
- All deposits in excess of 75% of the average monthly deposit must be explained with a signed letter by the applicant. Any deposits explained as non-business related must be excluded from the 12 month average calculation.
- Income Calculation Business Bank Statements
  - [(Total Deposits – Disallowed Deposits – Expenses) * (Ownership %)]/12
- Required Expense Factor
  - A 50% Expense Factor may be defaulted to for loan eligibility. In this case a P & L would not be required.
  - If the business operates more efficiently or typically has a materially different expense factor (lower than 50%) then a lower expense factor will be considered with either documentation below if prepared by a CPA, CTEC, or EA
    - (1) A written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent years filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation. In this case a P & L would not be required.; or,
    - (2) Profit and Loss (P&L) statement that has been produced and signed by the CPA, CTEC or EA. the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.

***The expense factor per a 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 3rd Party prepared document.**

SECTION 3: ASSETS & RESERVES

Minimum Reserve Requirements

- See Program Matrix
- Reserves required are calculated using the starting payment, interest only if applicable.
- Departing Residence
  - LTV's $\leq$ 75% require an additional 4 months of reserves on the departing residence
  - LTV's > 75% require an additional 6 months of reserves on the departing residence

Debt-to-Income Ratio Calculation

The Debt-to-Income ratio is calculated by dividing the Borrower's total monthly obligations by the Borrower's total monthly qualifying income. Lender does not utilize a separate Housing Expense Ratio (i.e. "Front-End Ratio)

When calculating DTI the below must be used:

- Starting New Loan Payment – Interest Only if applicable.;
- Hazard, Flood, and Mortgage Insurance premiums (if applicable);
- Real Estate Taxes;
- Any Special Assessments;
- Any Homeowner's Association dues; Any Subordinate Financing payments.

Documentation of Assets

Assets can be cash in the bank, stocks, bonds, IRA's, 401K's, mutual funds or retirement accounts. For stocks and bonds, 70% of the value may be considered for reserves. For vested retirement funds, 100% of the accessible amount may be considered for reserves if the borrower is of retirement age. For those under the retirement age, 70% of the value of the account may be used. Liquid Retirement Accounts may include accounts that have provisional access, including but not limited to a financing vehicle.

Note: If a distribution is currently in place on any retirement account, the accessible balance remaining after the required 3 year continuance period may be used to meet reserve requirements. The same requirement applies to any account being depleted.

Business Funds

Use of business funds/assets may be considered acceptable reserves when a Borrower is self-employed. The asset will be considered at the applicants ownership % of the business.
Unacceptable Asset Source

The following sources of funds may not be used in the calculation of assets:

- Proceeds from unsecured loans or personal loans.
- Gifts which must be repaid in full or partially.
- Sweat Equity.
- Cash-on-Hand: also known as mattress money.
- Cash advances from a credit card or other revolving account.

- 1031 Tax Deferred Exchange proceeds on owner-occupied property or second home.

- Funds for closing Disaster Relief Loans or Grants.
- Assets from margin accounts.
- Stock options and non-vested restricted stock.
- Funds that have not been vested.

Note: Business Funds may NOT be used in any depletion formula or for a No Ratio program eligibility as the funds are assumed to be within the business account to operate the business.

Cash Out to Meet Reserves

Allowed to the program's maximum limits.

Gift Funds to Meet Reserves

May be used, must be from a family member with a signed letter stating that the funds do not need to be repaid.

SECTION 4: BORROWERS

Customer Identification Program

The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all Borrowers. Correspondents must ensure the true identities of all Borrowers have been documented.

Permanent Resident Aliens

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Permanent resident aliens are eligible for financing. Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-151 – Permanent Resident Card (Green Card) that does not have an expiration date
- I-551 – Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551 – Conditional Permanent Resident Card (Green Card) issued for 2 years that has an expiration date, as long as it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

Non-Permanent Resident

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible.

VERIFICATION OF RESIDENCY STATUS

The following visa classifications are allowed as Non-Permanent Resident Aliens:

- A-1, A-2, A-3
- E-1, E-2, E-3
- G-1 through G-5
- H-1
- L-1
- NATO
- O-1
- R-1
- TN (NAFTA)

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower's current employer. If the visa will expire within 6 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S. Department of State website at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html.

Foreign Nationals

A Foreign National is a non-U.S. citizen authorized to live in the U.S. on a temporary basis but does not meet
the definition of a Non-Permanent Resident Alien. Loans to Foreign National borrowers are limited to a 65% LTV.

VERIFICATION OF RESIDENCY STATUS
The following visa types are allowed as Foreign Nationals:

- B-1and B-2
- H-2 and H-3
- I
- J-1 and J-2
- O-2
- P-1 and P-2

Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 Form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.

If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other residency requirements. Individuals in possession of spouse or family member visas are to qualify as co-borrowers only. A valid EAD must be provided to use income for qualification.

Canadian citizens are not required to provide a valid visa. An unexpired passport is acceptable.

Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program
(VWP) will not be required to provide a valid visa. Participating countries can be verified through the U.S.
Department of State website at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiverprogram.
html. An unexpired passport is acceptable.

Citizens of Venezuela are ineligible for all programs.

CREDIT REQUIREMENTS

A U.S. credit report should be obtained for each Foreign National borrower with a valid Social Security Number. The credit report should provide merged credit information from the 3 major national credit repositories.

For borrowers without a valid Social Security Number, an Individual Taxpayer Identification Number (ITIN)
is also allowed. An ITIN is acceptable if the borrower has the ITIN for purposes of reporting taxes from passive income sources only and is not employed in the U.S. A traditional U.S. credit report is not required
for borrowers without a valid SSN.

Foreign National borrowers who do not have a SSN or ITIN may still proceed under the Foreign National Program. All other program requirements still apply.

QUALIFYING U.S. CREDIT
The Qualifying U.S. Credit designation refers to non-U.S. citizen borrowers who meet Standard Tradeline Requirements.

QUALIFYING FOREIGN CREDIT
The Qualifying Foreign Credit designation refers to non-U.S. citizen borrowers who do not meet the Standard Tradeline requirements. A Qualifying Foreign Credit borrower may or may not have a U.S. credit report with no credit score, a single score, or a score with insufficient tradelines.
Qualifying Foreign Credit borrowers must establish an acceptable credit history subject to the following requirements:

- Three open accounts with a 2-year history must be documented for each borrower reflecting no late payments
- A 2-year housing history can be used as tradeline
- U.S. credit accounts can be combined with letters of reference from verifiable financial institutions in a foreign country to establish the 3 open accounts and an acceptable credit reputation. If letters of reference are obtained, they must:
- State the type and length of the relationship, how the accounts are held, and status of the account;
- Contact information must be provided for the person signing the letter; and
- Any translation must be signed and dated by a certified translator.

MORTGAGE AND RENTAL PAYMENT VERIFICATION

A 12-month housing history is required for Foreign National transactions. Mortgages and rental payments combined may not exceed 0 x30 in the past 12 months.

INCOME/EMPLOYMENT REQUIREMENTS

Foreign Nationals may qualify under the following documentation types:

- Full Doc
- Asset Depletion
- DSCR
  - Ineligible – 12 Month Bank Statement Program

FULL DOCUMENTATION

To document income received for salaried Foreign National borrowers, the following items must be obtained:

- Letter from employer on company letterhead providing current monthly salary and YTD earnings, OR 2 months' pay stubs with YTD earnings
- Verification of earnings for the last 2 years (letter from employer or W-2 equivalent)
- Employer to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator Foreign National borrowers who have been self-employed for at least 2 years are allowed. The following items must be obtained:
- Letter from a CPA providing income for the last 2 years and YTD earnings
- Self-employed business and CPA are to be independently verified (via LexisNexis, D&B International Business Search, Google, or other means of verification)
- All documents must be translated by a certified translator Verbal Verifications of Employment are not required for Foreign National borrowers.

SECTION 5: OCCUPANCY TYPES

Non-Occupant Co-Borrowers

Non-Occupant Co-Borrowers are allowed.

Primary Residence

A primary residence is a property occupied by the Borrower as his or her principal residence (may also be referred to as owner-occupied).

To qualify as a primary residence, the transaction must meet each of the following criteria:

- Borrower intends to occupy subject property as his/her principal dwelling.
- Property possesses physical characteristics that accommodate the Borrower's family.

Second Home

A second home is a dwelling occupied by the Borrower in addition to the Borrower's primary residence (may also be referred to as a vacation home). Second homes are eligible for financing and are restricted to one-unit dwellings only.

Typically second homes should meet the following criteria:

- Be located a reasonable distance (e.g. at least 30) miles from the Borrower's primary residence or be in a resort area.
- Must be occupied by the Borrower for some portion of the year.
- Suitable for year-round occupancy.
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or give control of the subject property to a management firm.

Investment Property

An Investment Property is a Non-Owner Occupied property. To be acceptable, it must not be one of the ineligible property types spelled out in the General Purchase Eligibility section at the beginning of these guidelines.

SECTION 6: REFINANCE TYPES

Rate/Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- The payoff of any Sr. or Jr. Subordinate Mortgage lien. Cash Out seasoning requirements apply.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- Borrower may only receive cash back in an amount that is the lesser of 1% of the new mortgage balance or $2000.
- Delayed financing

Debt Consolidation

For the purposes of eligibility, both Rate & Term and Debt-Consolidation will utilize the same LTV restrictions (see matrix for details).

The mortgage amount for a debt consolidation refinance is limited to the sum of the following:

- The payoff of any installment or revolving account. Tax Liens with installment payments in place are acceptable.
- The payoff of any Sr. or Subordinate Mortgage lien. Cash Out seasoning requirements apply.
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage.
- Borrower may only receive cash back in an amount that is the lesser of 1% of the new mortgage balance or $2000.

Cash-Out Refinance

A cash-out refinance is a refinance that does not meet the rate/term refinance definition.

A signed letter from the Borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The purpose of the cash-out is also reflected on the loan application.

Determining Loan-To-Value

Rate & Term Refinance

- Current appraised value may be used

Cash Out Refinance

- Current appraised value may be used if subject property was acquired > 6 months from the application date
- If the subject property was acquired ≤ 6 months from the application date, the lesser of the appraised value or purchase price must be used for value determination.

Delayed Financing

Is allowed to recapture the cash proceeds from the initial purchase transaction subject to the below:

- The lesser of $2,000,000 Cash Out or 70% Maximum LTV
- Copy of the Closing Statement from the Purchase Transaction is required to verify the applicants cash investment.
- Cash Out may not exceed the initial cash investment

Properties Listed For Sale

Rate & Term Refinance

- Property must be delisted prior to the Note date.

Cash Out Refinance

- Property must be delisted prior to the Note date. If the property was listed for sale in the 6 months prior to the Note date, a 10% LTV reduction is required.
- Loans with a Prepayment Penalty – The 10% LTV reduction may be waived for any transaction including a prepayment penalty.

Net Tangible Benefit

In compliance with Fair Lending standards, Refinances must provide a bona fide benefit to the Borrower(s).

When determining the benefit on a transaction, one of the following items should exist to support the benefit to the Borrower(s):

- Lower monthly payment.
- Lower interest rate.
- Exit an Interest Only loan.
- Convert an ARM to a fixed rate mortgage – this includes a 5/1, 7/1 & 10/1 fixed period.
- Convert an Arm that is recasting in the next 12 months to another Arm
- Pay-off of a balloon payment.
- Consolidation of debt.
- Resolution of loss mitigation actions.
- Pay-off of a tax lien.
- Cash-Out Proceeds to Borrower(s) in excess of the costs and fees to refinance.
- Pay-off of a Construction loan.
- Pay-off of property taxes.
- Extend fixed duration of loan

Inherited Properties

Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited less than 12 months prior to application, the transaction is considered a cash-out refinance and is subject to the following requirements:

- Equity owners must be paid through settlement. A written agreement signed by all parties stating the terms of the buy-out and property transfer must be obtained.
- Subject property has cleared probate and property is vested in the Borrower’s name.
- Current appraised value is used to determine loan-to-value.

Buying Out a Co-Owners Interest

A finance transaction resulting from a divorce settlement and/or dissolution of a domestic partnership, wherein the Borrower(s) is required to buy-out the interest of the other owner may be considered Rate & Term if the following apply:

The subject property was jointly owned by the parties for at least twelve (12) months prior to the funding of the new loan, with documentation to evidence this;

- Fully-executed written agreement or court- approved divorce decree that references the terms of the property settlement and proposed disbursement of refinance proceeds.
- The Borrower(s) who will be acquiring sole ownership of the subject property may not receive any of the funds from the refinance.

SECTION 7: CEDIT STANDARDS

Mortgage/Rent

0 x 30 in past 12 months as evidenced by a credit report, 12 months canceled checks, or an institutional VOM/VOR. Private VOM/VOR is allowed with a 12 month history from an Institution or Company ONLY. If Private Party is an Individual, 12 months of cancelled checks or bank statements is required to support the VOM. For properties owned less than 12 months the rating for the period of the loan is acceptable. Time Shares are NOT considered mortgage tradelines.

If no housing OR less than 12 months can only be verified, the loan is still eligible pending the overlays below are met:

- Primary residence and second homes only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- VOR/VOM must be obtained for all months available reflecting paid as agreed
- Properties owned free and clear are considered 0x30 for grading purposes.

Credit Report

A credit report is required for every Borrower on the loan application who will sign the note. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) or ITIN (Individual Taxpayer Identification Number) is required for all Borrowers on the loan. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the Borrower has resided in the last 2 years. Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required.

Credit Scores

Each Borrower must have valid credit scores from at least 2 of the 3 repositories: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon). The Borrower's representative credit score is determined by the following:

- If all three (3) scores are reported for the individual Borrower, the middle score would be used for that Borrower.
- If only two (2) scores are reported for the individual Borrower, the lower of the two scores will be used.
- If there are multiple Borrowers on a loan application, the primary wage earners representative scores will be used for qualification. A minimum fico of 620 is required for the primary wage earner with any co-applicant required to have a 500+.

Trade Line Requirements

3 tradelines reporting for 12+ months with activity in last 12 month's OR 2 tradelines reporting for 24+ month's with activity in last 12 months.

Only the Primary Wage Earner must meet the minimum tradeline requirement listed above.

Valid Tradelines:

- The credit line must be reflected on the credit report
- The account must have activity in the past 12 moth's and may be open or closed
- Tradelines used to qualify may not exceed 0 x 60 in the most recent 12 months
- An acceptable 12 or 24 month housing history not reporting on credit may also be used

Fraud Alerts

The three credit repositories have also developed automated messaging to help identify possible fraudulent activity on a credit report. Examples include Initial 90-day Fraud Alerts, Extended Fraud Alerts, Active Duty Alerts, and HAWK Alerts. All Fraud Alerts must be fully resolved for the loan to be eligible for purchase.

Inquiries

Recent inquiries may indicate that the consumer has actively been seeking credit. A signed letter of explanation from the Borrower or creditor is required for all inquiries within the most recent 120 days to determine whether additional credit was granted as a result of the Borrower's request.

Disputed Credit Accounts

All disputed accounts appearing on the borrower's credit report must be taken into consideration with all other debt unless the borrower can prove otherwise.

Derogatory Credit

The credit history of the Borrower(s) should be reviewed to determine whether there are any major indications of adverse or derogatory credit. Adverse or derogatory credit information does not necessarily mean the Borrower's credit is not acceptable. The Borrower's overall credit history should be evaluated to determine the level of risk.

Timeshare Accounts

For credit review purposes, timeshare obligations are considered installment loans and not real estate loans.

Litigation

Any litigation involving the Borrower, including bankruptcy, foreclosure, deed- in-lieu, pre-foreclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet Lenders Program requirements. All derogatory credit that will impact the Borrower's title must be paid off at or prior to closing. Title must insure the first lien position without exception.

Consumer Credit Counseling

Borrowers who have participated in Consumer Credit Counseling are eligible provided that at least 12 months has passed since the completion of the program.

Bankruptcy, Foreclosure, Deed-In-Lieu/Short Sale

See Product Matrices for seasoning requirements.

Waiting Period for Mortgage Debt Discharged through Bankruptcy.

Lender will follow Fannie Seller guide that states if a mortgage debt has been discharged through bankruptcy, even if foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Lenders must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy.

Loan Modification

A mortgage modification in the last 3 years resulting in any of the attributes listed below is ineligible:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any portion of the original mortgage debt from secured to unsecured

If a copy of the modification paperwork is unattainable the following overlay may be applied for loan eligibility:

- 0 x 30 x 36 Mortgage Rating History all properties

Collections and Charge-Offs

The following accounts may remain open:

- Collections and Charge-offs with a balance < $2,500
- Collections and Charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)

Collections and charge-offs exceeding the amounts above may remain open when one of the following is met:

- Borrower has sufficient reserves to pay off the remaining collections and charge-offs in addition to the published reserves required.
- Payment for the remaining collections and charge-offs at an assumed payment of 5% of the outstanding balance is included in the DTI calculation for eligibility

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

Judgements and Tax Liens

Must be paid off.

Requirements for Letters of Explanation

A written Letter of Explanation may be needed to address information reported in the credit profile. Explanation letters must address the matter sufficiently and be signed by all Borrowers acknowledging accuracy of the information. The original written explanation will be included in the loan file.

- Credit Inquiries
  - A written statement addressing all credit inquiries made within the prior 120 days (other than an inquiry related to the subject loan) is required and must state that no additional credit accounts were obtained by the Borrower other than those reflected on the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the Borrower must be qualified with the monthly payment.
- Derogatory Credit
  - Housing Events and Bankruptcies in the past 2 years require a written and signed letter of explanation.
  - All Mortgage and Consumer lates $\geq$ 60 days late in the past 12 months require a written and signed letter of explanation.

SECTION 8: LIABILITIES

Installment Debt / Co-Signed Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the Borrower's debt-to-income ratio. Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. Installment debt that was co-signed to assist another individual with financing may be excluded with 12 months of cancelled checks or bank statements in the payee's name ONLY.

Supporting documentation, such as a credit supplement, final HUD-1 or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 3% of the current balance should be included in the debt-to-income ratio calculation.

Business Debt

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the Borrower's personal credit report, the Borrower is personally liable for the debt and it must be included in the debt-to-income ratio. Debts paid by the Borrower's business can be excluded from the debt-to-income ratio with any of the following supporting documentation:

- Most recent twelve (12) months canceled checks drawn on the business account.
- Most recent twelve (12) months business bank statements clearly verifying proceeds deducted.
- Tax returns reflecting the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve.

Alimony and Child Support

Monthly alimony, child support or separate maintenance fees must be included in the Borrower's debt-to- income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order.

Home Equity Line of Credit(HELCOC)

For Home Equity Loans and Lines of Credit whether deferred, in forbearance, or in repayment, the actual documented payment (documented in the credit report, in documentation obtained from the lender, or in documentation supplied by the Borrower) must be utilized to determine the monthly payment for the debt in the Borrower's qualifying debt ratios. If the payment currently being made cannot be documented or verified, then 1% of the outstanding balance must be used.

Student Loans

For all student loans, whether deferred, in forbearance, or in repayment, the following must be utilized to determine the monthly payment for the debt in the Borrower's qualifying debt ratios:

- 1% of the outstanding balance; or
- The actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the Borrower).
- If the payment currently being made cannot be documented or verified, then 1% of the outstanding balance must be used.

SECTION 9: PROPERTY & APPRAISAL

General Appraisal Responsibilities

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. Lender is responsible for all of the following:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property.
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for determining the value.
- Compliance with the ECOA Valuations Rule, which requires notifications to Borrowers (1) of their right to receive copies of appraisals within three (3) days of application, and (2) that copies of appraisals and other written valuations be delivered to them on the earlier of (a) promptly upon completion, or (b) three (3) business days before closing.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion,
- sex, handicap, familial status, national origin for any party in the transaction, or impermissible
- demographics of the community in which the property is located, as the basis for market value.

Uniform Residential Appraisal Report (URAR)

Appraisers are required to use appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004).
- Small Residential Income Property Appraisal Report (FNMA Form 1025).
- Individual Condominium Unit Appraisal Report (FNMA Form 1073).
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007).
- Operating Income Statement for 2-4 unit investment properties (FNMA).

NUMBER OF APPRAISALS AND SPECIAL REQUIREMENTS

Guideline:

- Loan Amount < $1,500,000 – One Full Appraisal and a supporting Secondary Valuation Model including any of the below.
  - AVM within 10% or greater than the appraised value along with an FSD Score that meets the tables requirements below. See Exhibit A.
  - Fannie Mae's Collateral Underwriter (CU) with a score ≤ 2.5
  - A CDA, Desk Review or Field Review
  - If all of the above fails in its support of the value a second full appraisal will be required with the lower of the two values being used for qualification.
- Loan Amount ≥ $1,500,000 – Two Full Appraisals with the lower value of the two being used for loan qualification.

All transactions require a new appraisal. For properties purchased within the past 6 months, the lesser of the purchase price/appraised value at the time of the last refinance or current appraised value will be utilized to determine subject property value.

If a property has been "flipped" within 180 days, a second appraisal will be required.

Exhibit A – AVM FSD Score Requirements

VENDOR	
Clear Capital	<= 0.13
Collateral Analytics	<= 0.10
House Canary	<= 0.10
Red Bell Estate, LLC	<= 0.10
Veros	<= 0.10

Appraisal Report Content

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable sales used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.

- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable sales used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

Subject Property Analysis

The subject property should conform to the neighborhood in terms of age, design and materials used for construction. The appraiser should describe any unacceptable or unusual items that will impact marketability and where appropriate make adjustments for the specified items in the estimate of market value.

Acceptable marketability is supported by at least average ratings for quality, construction, condition and appeal of the property (fair and/or poor ratings are not acceptable under this Program).

Living Area

Living areas of the subject property should be typical for the marketing area. The appraisal should use comparable sales of similar size to demonstrate the marketability of the property.

Condo units and detached properties with less than 600 square feet of living area will require additional analysis to determine if their size is common and customary in the subject market. These will be considered on a case-by-case basis. For multi-unit properties, a minimum of 50% of the total units must be in excess of 600+ sf.

Design

The appraiser should assess the design and overall appeal of the subject property and evaluate whether similarly designed properties exist and are readily marketable in the subject area.

Outbuildings

Small outbuildings such as barns, stables, workshops or guesthouses must be described on the appraisal report. These must be typical for the subject area and be supported by comparable sales of properties with similar outbuildings.

Building Permits for Additions and Alterations

Conversions or additions to the living area must have been completed in a workman-like manner as confirmed by the appraiser and supported by photographs of the addition. The improvements must be of good quality and any possible health or safety violations must be noted by the appraiser. Room additions or additional units must be permitted to ensure that the dwelling was built to code.

Property Condition

All properties must have an "average" or "good" rating to be eligible under this Program. Appraisals completed "Subject To" are ineligible. All factors that negatively impact the property's condition must be considered when assessing the overall risk of the loan file. These factors include:

Deferred Maintenance

Deferred maintenance is limited to $2,000. The appraiser must determine the nature of the repairs and include the cost-to-cure.

Debris, Graffiti, or Trash

Properties showing an excessive amount of debris, graffiti or trash may require clean-up. If necessary, a Satisfactory Completion Certificate (Freddie Mac Form 442) and photos will be required.

Infestation

If there is any indication of termites or any other infestation, the infestation issue must be investigated, treated, and remedied.

Roof Damage

Properties with visible evidence of roof leaks and/or interior water damage (e.g. ceiling stains) must be addressed at time of underwriting, even if the appraisal does not list them specifically in the report. If any of these conditions exist, a roof certification must be obtained, indicating a remaining useful and physical life of at least three (3) years.

Other Unacceptable Property Conditions

- Boarded-up properties.
- Properties that pose an imminent threat to the health and safety of the occupant.
- Inadequate foundations that do not meet the current code requirements for the local municipality.
- Inadequate heating (must be permanent affixed legal heating systems).
- Properties without water or public electricity.
- Cantilevered or properties on stilts, posts or piers.
- Shared services for well, septic or utilities that are private agreements.
- Properties showing evidence of mold.
- Environmental hazards or nuisances Disaster Areas.

Lender is responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks. Adverse events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at http://www.fema.gov/news/disasters.fema.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

Guidelines for disaster areas should be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later. When the appraisal was completed prior to the disaster incident, an interior and exterior inspection of the subject property is required.

Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability.

- Inspection report must include photographs of the front, rear and street view of the property.

- Any damage must be repaired and re-inspected prior to purchase.
- File must contain a copy of the inspection report and evidence of inspector licensing.
- An appraisal update or final inspection from the appraiser must also be obtained. Appraiser must comment on the adverse event and certify that there has been no decline in value.

Existing damage must meet “Deferred Maintenance” guidelines above.

When the inspection date of the appraisal is after the disaster incident, the following requirements must be met:

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet “Deferred Maintenance” guidelines.

When a Disaster occurs after closing but before loan purchase, the loan is ineligible for purchase until an appraisal update or final inspection from the appraiser is obtained.

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet “Deferred Maintenance” guidelines.

Comparable Sales

The subject property appraisal must be supported by an analysis of recently closed comparable sales located near the subject property. The following key factors are considered in this review:

Proximity to the Subject Property

Comparable sales should be located within one (1) mile of the subject property in urban and suburban areas. If two of the three comparable sales used by the appraiser exceed a distance of five (5) miles from the subject property, the property will be considered as rural. The appraiser must explain the necessity of using any comparable property located outside the neighborhood.

Comparable Sales Inside and Outside of New Projects

The appraiser must demonstrate the marketability of homes built within new subdivisions or Condominium projects through the use of at least one[1] comparable sale from inside the subdivision or project and one comparable from outside the subdivision or project.

Age of Comparable Sales

Comparable sales must have a recent date of sale, preferably, within six (6) months of the subject property’s sale date. If any of the comparable sales are over six months old, the appraiser should comment on the market conditions. If it is necessary to use older comparable sales, the appraiser should supplement them with pending sales and/or current listings in the neighborhood.

Similarity to Subject Property

The comparable sales selected by the appraiser must represent the best market data available to support the property’s estimated value. Comparable sales should be as similar as possible to the subject property in physical attributes, rights of ownership, zoning and other amenities.

Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Appraiser Qualifications

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the

“Appraiser” must have performed the level of inspection of the subject property required by the assignment. Lender orders all appraisals from either First American or Core Valuation Management.

http://cvmamc.com

https://www.firstam.com/mortgagesolutions/solutions/valuation/staff-appraisals.html

Age of Appraisal

The appraisal report must be completed within 120 days of closing. A new appraisal is required if the original appraisal is aged beyond this timeframe. A recertification of value is not acceptable.

Repair Escrows

Escrows for work completion are not allowed.

SECTION 10: PROPRTY INSURANCE

Minimum Hazard Insurance Coverage

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis.

Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable. Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Hazard insurance coverage should be in the amount of the lesser of:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not then coverage that does provide the minimum required amount must be obtained.

Calculating the Required Coverage Amount

Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan. If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.

If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, calculate 80% of the insurable value of the improvements.

If 80% of the insurable value is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.

If 80% of the insurable value is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

Examples:

Category	Property A	Property B	Property C
Insurable Value	$90,000	$100,000	$100,000
Unpaid Balance	$95,000	$90,000	$75,000
80% Insurable Value	N/A	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Condominium and PUD Insurance

Insurance should cover 100% of the insurable replacement cost of the project improvements and common elements, including the individual units in the project.

If the subject property is an attached PUD or a condominium, the respective associations may acquire a blanket policy to cover the project. The entire project insurance policy should be reviewed to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The policy must show the HOA as the named insured.

For PUD projects, individual insurance policies are also required for each unit. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable in satisfaction of its insurance requirements for the units.

The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

For condominium projects, if the unit interior improvements are not included under the terms of the condominium policy, the Borrower is required to have an HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event.

Evidence of Hazard Insurance

Evidence of Insurance may be provided in one of the following forms: Actual Policy, Certificate of Insurance (COI), or Insurance Binder.

Evidence of Insurance must provide the following information:

- Names of Borrowers reflect the same as the names on the note.
- Property address agrees with the note/security instrument.
- Mailing address is the same as property address.
- Policy Number.
- Loan Number.
- Name of insurance company.
- Insurance Agent information.
- Effective and expiration dates of coverage.
- Premium Amount.
- Coverage amount and deductible.
- Loss payee clause as applicable.
- Signed and dated by agent.

SECTION 11: FLOOD INSURANCE

Flood Insurance Requirement

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

Note: Loans requiring flood insurance must be escrowed for flood insurance premiums.

Flood Certificate/Determination

Determination whether a subject property is in a flood zone must be established by a Life of Loan Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or

Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in a Special Flood Hazard area.

Minimum Flood Coverage

The minimum amount of flood insurance required for most first mortgages secured by one-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or
- The unpaid principal balance of the mortgage.

Project Flood Requirements

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

Deductible Amount

The maximum allowable deductible is the maximum available from the NFIP, which is currently$10,000. The maximum allowed deductible for a PUD or condo project is $25,000.

Evidence of Flood Insurance

Flood insurance must be obtained prior to closing, and maintained throughout the duration of the loan ("Life- of-Loan"). Acceptable evidence of flood insurance is:

- A copy of the Policy Declaration Page, or a copy of the Complete/Signed Application plus proof of premium payment.

SECTION 12: TITLE INSURANCE

Title Insurance Requirements

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae requirements.

Title Commitment Review

Preliminary title must indicate that the final title policy will be issued after funding.

The preliminary title report/title commitment should be dated no more than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

All files are to contain a 36-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 36 months should be provided. The vesting history will be reviewed for inconsistencies or any indication of flipping activity.

Borrower Information

All Borrower names must be indicated on the title commitment. If the Borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The seller's name must be cross referenced to the purchase agreement and valuation chain of title.

Coverage Amount

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

Title Policy Forms

The Title Policy must be written on one of the following forms:

2006 American Land Title Association (ALTA) standard for, or

ALTA form with Amendments required by state law in those states where the standard ALTA forms of coverage are not used or where the 2006 ALTA forms have not yet been adopted, provided that those amendments do not materially impair protection to the owner.

Note: Short Form Title Policies are not allowed.

Insured Name

Title policy must insure Lender as the name that appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

Gap Coverage

The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy.
- Title bring-down search representing the period of time from the original search through the time the mortgage is recorded.
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence.

Title Policy Underwriter

A nationally recognized insurer or reinsurer which has received one of the following ratings must have underwritten the title insurance policy:

- BBB or better rating from Duff and Phelps Credit Rating Company.
- C or better rating from LACE Financial Corporation.
- BBB or better rating from Moody‘s Investors Service BBB or better rating from Standard and Poor‘s, Inc.
- A Financial Stability Rating of S (Substantial) or better, or a Statutory Accounting Rating of C (Average) or better from Demotech, Inc.

Title Exceptions

The following items are allowable title exceptions:

- Customary public utility subsurface easements; the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with the use and enjoyment of any present improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10 foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one (1) foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valor taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

Survey Requirements

If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable. Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

SECTION 13: INVESTOR / DSCR OVERLAYS

The Investor Matrix is designed for investment or non-owner occupied loans that are designated for business purposes only. All guidelines pertaining to this section below will supersede the general guidelines.

Required Forms

Business Purpose & Occupancy Affidavit are required to be signed at closing to declare that the property is, or will be, for commercial business or investment purpose only.

Products

See the Investor Program Matrix

Loan Amounts & Loan to Values

See the Investor Program Matrix

Prepayment Penalties, Points and Fees

Total points, fees, and APR may not exceed current state and federal high-cost thresholds. See the Investor Program Matrix

Cash-Out Refinance

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. Proceeds of the loan are limited to business purposes ONLY and for the purchase, improvement, or maintenance of the subject property. Utilizing proceeds of the loan for personal, family, or household purposes is prohibited.

Eligible Payoffs

The payoff of any mortgage lien as well as Property Taxes and Insurance including any delinquent property taxes and/or prepaids on any Rental Property.

Flip Transactions

Flips are not allowed under the Investor Program. Seller must be on title for > 180 days.

Ineligible Borrowers

The following borrowers are ineligible

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Residents of any country not permitted to transact business with US companies are ineligible (as determined by any U.S. government authority)
- Irrevocable Trusts or Land Trusts
- Borrowers less than 18 years old
- Loans to employees of seller
- Foreign Nationals

Rent Loss Insurance

Rent Loss Insurance for the Subject Property is required and must equal at least 6 months of local average monthly rents. Blanket policies covering the subject property are permitted.

Evidence of Primary Residence

All borrowers must presently maintain a primary residence. Evidence of primary occupancy is required.

Borrowers who own a primary residence must provide proof of ownership of a primary home. Borrowers who rent a primary residence must provide evidence of an active lease in place. The primary residence should be supported by one of the following characteristics:

- Geographically consistent with borrower's place of employment; or
- General appeal and location of primary is superior to subject property

Borrowers whose primary dwelling is rent free must provide evidence of living with a family member or spouse while still meeting the above requirements.

Housing Events & Mortgage History

See Investor Program Matrix

Employment & Income Analysis

There is no employment verification or income analysis under the Investor Program.

Interest Only Qualifying

See the Investor Program Matrix

Ratios & Qualifying

DSCR ≥ 1.00

The DSCR calculation is as follows:

Fully Amortized Loans
DSCR = Gross Rents / Proposed PITIA

Interest Only Loans
DSCR = Gross Rents / Proposed ITIA

To calculate **Gross Rents**, use the lower of the executed lease agreement or market rent from appraisal form 1007 or form 1025 as applicable. If the executed lease agreement reflects a higher monthly rent, it may be used in the calculation when evidence of receipt of the higher amount for the 3 most recent, consecutive months is provided via cancelled checks and/or bank statement deposits. If there is no lease agreement in place or the property is vacant the average market rent as stated on the appraisal is used. For short term rentals the homeowner should document evidence of rents received over the last 12 months. Use the lower of the average rents collected over the period or the average market rents as stated on the appraisal.

Vesting and Ownership

Ownership must be fee simple. Acceptable forms are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity
    - Limited Liability Company
    - Limited Partnership
    - General Partnership
    - Corporation

Business Entity

Vesting in the name of an LLC, Partnership, or Corporation is acceptable on investment property transactions only.

To vest a loan in an Entity the following requirements must be met:

- Business purpose and activities are limited to ownership and management of real estate.
- Each entity owner must complete a loan application. The loan application, credit report, income and assets for each owner will be used to determine qualification and pricing.
- Each entity owner must receive notice of the loan and its terms prior to closing. The following documents must be provided:
- Entity Articles of Organization, Partnership and Operating Agreements (if applicable)
- Tax Identification Number
- Certification/Evidence of Active Standing

The following documents must be completed and signed as follows:

- Business Purpose and Occupancy Affidavit – signed by each owner
- Loan Application / 1003 - signed by each owner
- 1003 should read “Title will be held in the name of “XYZ Entity Name”
- Note, Deed or Trust/Mortgage and all Riders to be signed by all owners regardless of ownership percent.