Single Family Residential Expanded Mortgage Program

Underwriting Guidelines

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Expanded Mortgage Program

Table of Contents

1.1 Introduction 8
1.2 Fair Lending Statement 8
1.3 Responsible Lending Statement 8
2 SUMMARY AND FEATURES 9
2.1 Expanded Prime 9
2.2 Expanded Non-QM 9
2.2.1 Expanded Non-QM 9
2.2.2 Expanded Non-QM (Flex) 9
2.3 Expanded DSCR 10
3 PRODUCT TYPES & ELIGIBILITY 10
3.1 Derogatory Housing History 11
3.2 Geography 11
3.3 Minimum Loan Amount 11
3.4 Debt to Income ("DTI") 12
3.4.1 Qualifying Payment 12
3.5 Cash-Out Limits 12
3.6 Prepayment Penalties 12
3.7 Reserves 12
4 BORROWER ELIGIBILITY 13
4.1 Eligible Borrowers 13
4.2 Permanent Resident Alien 13
4.3 Non-Permanent Resident Aliens 14
4.3.1 Non-Permanent Resident Aliens must meet the following requirements: 14
4.3.2 Non-Permanent Resident Alien Program Restrictions 14
4.4 First Time Home Buyers 14
4.5 Non-Occupant Co-Borrower 15
4.6 Entity Vesting for Limited Partnership (LP), General Partnership (GP), Corporations (Corp) and Limited Liability Companies (LLC) 15
4.6.1 Entity Vesting Requirements 15
4.6.2 Required Entity Documentation 15
4.6.3 Layered Entity Structures 16

4.6.4 Entity Signature Requirements 16
4.7 Ineligible Borrowers 16
5 OCCUPANCY ELIGIBILITY 16
5.1 Primary Residence 16
5.2 Second Homes 17
5.3 Non-Owner Occupied 17
5.3.1 Ineligible for Non-Owner Occupied 17
6 TRANSACTION ELIGIBILITY 17
6.1 Eligible Transactions 17
6.1.1 Purchase 17
6.1.2 Rate / Term Refinance 18
6.1.3 Cash-Out Refinance 18
6.1.4 Property Buyouts and Inherited Properties 19
6.1.5 Subordinate Financing 19
6.1.6 Flip Transactions 20
6.1.7 Delayed Financing 21
6.1.8 Non-Arm's Length Transactions 21
6.1.9 Employee Loans 21
6.2 Ineligible Transactions 22
7 CREDIT ELIGIBILITY 22
7.1 Credit Report Detail 22
7.2 Housing History 22
7.3 Credit Scores 23
7.4 Credit Report Requirements 24
7.4.1 Tradelines 24
7.4.2 Credit Events 24
8 INCOME DOCUMENTATION 25
8.1 Full Documentation 25
8.1.1 Wage Earners 25
8.1.2 Self-Employed Borrowers 26
8.2 Streamline Documentation (One Year Verification of Income) 27
8.2.1 Wage Earners 27

8.2.2 Self-Employed Borrowers 27
8.3 Asset Depletion / Asset Utilization 28
8.3.1 Program Requirements 29
8.3.2 Eligibility 30
8.3.3 Qualifying Income 30
8.4 Bank Statements 30
8.4.1 Personal Bank Statements 32
8.4.2 Business Bank Statements 32
8.5 12 Month Profit & Loss (P&L) and Written Verification of Employment (WVOE) 35
8.5.1 12 Month Profit & Loss (P&L) 35
8.5.2 Written Verification of Employment (WVOE) 36
8.6 Supplemental Income Sources 37
8.6.1 Rental Income (Non-DSCR) 37
8.6.2 Short-Term Rental Income (Non-DSCR) 38
8.6.3 Trust Income 39
8.6.4 Alimony Income / Child Support 39
8.6.5 Note Receivable Income 39
8.6.6 Royalty Payment Income 39
8.6.7 Retirement Income 39
8.6.8 Self Employed / Wage Earner Combination for Joint Borrowers 39
8.7 Additional Employment & Income 40
8.7.1 Work History 40
8.7.2 Employment Gaps 40
8.7.3 Recently transitioned W-2 to 1099 40
8.7.4 Ancillary Non-Employment Income – Continuance 40
8.7.5 Restricted Stock (RSUs) 41
8.7.6 Averaging of bonus / commission, 2 years 41
8.7.7 Secondary Employment 41
8.7.8 Foreign Sources of Income 41
8.7.9 Grossing up nontaxable income 41
8.7.10 Two-year Business validation – Name change / re-organization 41
9 EXPANDED DEBT SERVICE COVERAGE RATIO (“DSCR”) PROGRAM, NON-OWNER OCCUPIED ONLY 42

9.1 DSCR Calculation 42
9.2 Short-Term Rental Income (DSCR) 42
9.2.1 Eligibility 42
9.2.2 Documentation Requirements 42
9.3 Reserve Requirements 43
9.4 Employment Verification 43
9.4.1 Wage Earner / Salaried Borrower 43
9.4.2 Self-Employed Borrowers 43
9.4.3 No Employment Verification 43
9.5 Professional Investors 44
9.6 Rent Loss Insurance 44
9.7 Assignment of Rent 44
9.8 Cash-Out 44
10 ASSETS 45
10.1 Documentation 45
10.2 Business Assets 45
10.3 Gift Funds 46
10.4 Other Asset Sources 46
10.4.1 Life insurance cash value 46
10.4.2 Foreign Assets 46
10.4.3 Non-borrowing Spousal Joint Accounts 47
10.4.4 Restricted Stock 47
10.4.5 Sale of Personal Assets 47
10.4.6 Employer assistance 47
10.4.7 1031 Assets 47
11 LIABILITIES 47
11.1 Departing Residence 47
11.1.1 If no contract in place 48
11.1.2 If under contract 48
11.2 Property Tax Estimates for New Construction 48
11.3 Student Loan 49
11.4 Solar leases 49

11.5 Payoff of debt to qualify 49
11.6 Debts paid by others / contingent liabilities 49
11.7 Obligations paid by business 49
12 UNDERWRITER ANALYSIS 49
12.1 Compensating Factors 49
12.2 Exceptions 50
12.3 Residual Income 50
12.4 Documentation Age 50
13 PROPERTY 50
13.1 Appraisal 50
13.2 Third Party Appraisal Review 51
13.3 Declining Markets 52
13.4 FEMA Disaster Areas 52
13.4.1 Appraisal Completed Prior to Disaster 52
13.4.2 Appraised After Disaster Incident 52
13.4.3 Disaster Incident Occurs After Closing, Prior to Funding 52
13.4.4 Verbal Verification of Employment 52
13.5 Eligible Property Types 53
13.5.1 Condominium Projects 53
13.6 Ineligible Properties 55
14 ADDITIONAL GUIDELINE REQUIREMENTS 56
14.1 Requirements not Specifically Referenced 56
14.2 Ability to Repay 56
14.3 Agency Ineligibility 56
14.4 High Cost 56
14.5 Fraud 56
14.6 Hazard Insurance (1-4 Unit Properties) 56
14.7 Flood Insurance (1-4 Unit Properties) 57
14.8 Escrows 57
14.9 Escrow Holdbacks 57
14.10 Assumability 57
14.11 Manual Underwrite 57

14.12 Uniform Residential Loan Application (URLA) 57
14.13 Maximum Financed Properties 57
14.14 Power of Attorney 58
14.15 E-Signatures 58

Expanded Mortgage Program

1.1 Introduction

These Underwriting Guidelines apply exclusively to loans under the Axos Bank ASI Expanded Mortgage Program (the "Program"), and to no other loan programs from time to time marketed by Axos Bank (the "Purchaser").

If these guidelines are silent on a given subject, please refer to the Fannie Mae selling guide for guidance.

PURCHASER RESERVES THE RIGHT TO ALTER, MODIFY, SUPPLEMENT AND/OR WITHDRAW ANY PORTION OF THESE GUIDELINES AT ANY TIME OR FROM TIME TO TIME. PURCHASER MAY FROM TIME TO TIME IMPOSE CREDIT AND/OR PROGRAMATIC OVERLAYS WITH RESPECT TO ANY LOANS TO BE SUBMITTED FOR PURCHASE UNDER THE PROGRAM. PURCHASER SHALL IN NO EVENT BE REQUIRED TO PURCHASE, OR BE DEEMED TO HAVE AGREED TO PURCHASE, ANY PARTICULAR LOAN IRRESPECTIVE OF WHETHER SUCH LOAN CONFORMS TO THE REQUIREMENTS SET FORTH HEREIN.

1.2 Fair Lending Statement

The Purchaser operates in strict compliance with the provisions of the Fair Housing Act and the Equal Credit Opportunity Act. 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. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age (provided that the borrower has legal 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. The Purchaser fully supports the letter and spirit of both laws and will not condone discrimination in any mortgage transaction.

1.3 Responsible Lending Statement

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Mortgage Loans should be affordable to the borrower in their pursuit of homeownership.

Under the general Ability to Repay (ATR) standard, at or before consummation of the related Mortgage Loan, lenders must make reasonable, good-faith determination that the consumer has a reasonable ability to repay the Mortgage Loan. Lenders must verify information using reasonably reliable third-party records that provide evidence of income or assets.

The Purchaser will not fund or purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though the Purchaser may choose to purchase a loan that does not adhere to the formal requirements of the ATR rule, the Purchaser will only fund or purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

2 SUMMARY AND FEATURES

Please see Product Matrices for the full eligibility guidelines. The following information is a representative summary of the different programs.

2.1 Expanded Prime

- ✓ Expanded Prime Program is for Borrowers with a clean derogatory housing event history **(>=48 months clean) and mortgage history (0x30x12)**
- ✓ Borrowers can qualify with Full Documentation (including 1099s), Streamline Documentation (including 1099s), Written Verification of Employment ("WVOE"), Asset Depletion, Asset Utilization, 12 Month 3rd Party P&L, 12M/24M Personal and Business Bank Statements
- ✓ Max Loan Size of $3.5mm
- ✓ Max LTV/CLTV/HCLTV of 90%
- ✓ Minimum FICO of 660
- ✓ DTI up to 55%
  - Requires a FICO score of 700 or greater
  - Maximum LTV/CLTV/HCLTV 80%
  - Primary Residence only, no FTHB
  - Requires 1.5x Residual Income as defined in Section 12.3
- ✓ 6 Months Minimum reserves
- ✓ Interest Only Eligible (Min 700 FICO, Max 85% LTV/CLTV/HCLTV)
- ✓ Cash-Out can be used as reserves

2.2 Expanded Non-QM

2.2.1 Expanded Non-QM

- ✓ Expanded Non-QM is for Borrowers with the following housing event history **(>=36 months clean) and mortgage history (1x30x12)**
- ✓ Borrowers can qualify with Full Documentation (including 1099s), Streamline Documentation (including 1099s), Written Verification of Employment ("WVOE"), Asset Depletion, Asset Utilization, 12 Month 3rd Party P&L, 12M/24M Personal and Business Bank Statements
- ✓ Max Loan Size of $3.0mm
- ✓ Max LTV/CLTV/HCLTV of 90%
- ✓ Minimum FICO of 660
- ✓ DTI up to 50%
- ✓ Interest Only Eligible (Min 700 FICO, Max 80% LTV/CLTV/HCLTV)
- ✓ 3 Months Minimum reserves
- ✓ Cash-Out can be used as reserves

2.2.2 Expanded Non-QM (Flex)

- ✓ Expanded Non-QM (Flex) is for Borrowers with the following derogatory housing event history **(>=24 months clean) and mortgage history (2x30x12 and 1x60x24)**
- ✓ Borrowers can qualify with Full Documentation (including 1099s), Streamline Documentation (including 1099s) and 12M/24M Personal and Business Bank Statements

- ✓ Asset Depletion, Asset Utilization, 12 Month 3rd Party P&L and Written Verification of Employment are **NOT** eligible
- ✓ Max Loan Size of $2.0mm
- ✓ Max LTV/CLTV/HCLTV of 85%
- ✓ Minimum FICO of 660
- ✓ DTI up to 45%
- ✓ Interest Only not permissible
- ✓ 3 Months minimum reserves
- ✓ Cash-Out can be used as reserves

2.3 Expanded DSCR

- ✓ Expanded DSCR Program is for professional investors with the following derogatory housing event history **(>=36 months clean) and mortgage history (0x30x12)** seeking a business purpose, non-owner-occupied loan
- ✓ First Time Investors are allowed provided that the DSCR is > 1.0, the Credit score is > 700 and there are no exceptions on the file
  - Max Loan Size of $2.0mm
  - FTI are not permitted to be FTHB
- ✓ Borrowers will qualify with property income (Debt Service Coverage Ratio)
- ✓ Debt Service Coverage Ratio = Gross Rent/PITIA (Amortizing loan) or Gross Rent/ITIA (Interest Only)
- ✓ DSCR eligible at .75x
- ✓ No Ratio DSCR is acceptable with restrictions (See Product Matrices for more details)
- ✓ No personal income to qualify
- ✓ Max Loan Size of $3.0mm
- ✓ Max LTV/CLTV/HCLTV of 80%
- ✓ Minimum FICO of 660
- ✓ Interest Only acceptable with restrictions
  - DSCR ≥ 1.00: minimum FICO is 700, maximum LTV is 75%
  - DSCR ≥ 0.75: minimum FICO is 700, maximum LTV is 70%
  - Loan amount $2.0mm-$2.5mm: maximum LTV is 65%
  - Loan amount $2,500,001-$3mm: maximum LTV is 60%
- ✓ 3 months minimum reserves
- ✓ No requirement for additional reserves for other financed properties, Subject Property reserves only
- ✓ Cash-Out can be used as reserves
- ✓ Housing history verification is required on subject property and borrower primary regardless of whether the borrower is on the Note or vested on title. Any additional housing history included in the loan file that reflects delinquencies will be subject to review and must adhere to the loan program matrix
- ✓ When vesting in an entity, no additional Borrowers are allowed to join an entity on Title or on the subject loan

3 PRODUCT TYPES & ELIGIBILITY

Product[1]	Term	Interest Only Term	Amortization Term
30 Yr. Fix	360	N/A	360
30 Yr. Fix IO	360	120	240
40 Yr. Fix IO	480	120	360

[1] Qualifying payment for I/O loans must include a principal component based on the original balance and remaining amortizing term at the end of the I/O period (i.e. 240 months or 360 months)

3.1 Derogatory Housing History

Please refer to the respective Product Matrix for Derogatory Housing Events seasoning requirements and Housing History requirements.

Derogatory Housing Events:

- Housing Events are defined as Foreclosures, Short Sale, Deed in Lieu, Modification due to default, Notice of Default, or 120+ Days Delinquent
- Bankruptcies are considered Housing Events, inclusive of Chapter 7, 11, and 13
- Defaulted first and second mortgages on same property are considered one (1) event
- Events include all occupancy types (Primary, Second Home, and Investment Properties)

Seasoning lookback is from the date of discharge/dismissal or property resolution (completion date), as of the note date.

Modification look back commences at inception (when loan was permanently modified).

Housing History

- Twelve (12) month mortgage/housing history includes all occupancy types: Primary, Second Home and Investment Properties

3.2 Geography

All fifty (50) US states including the District of Columbia (DC) are eligible for purchase.

The following US commonwealth and territories are not eligible for purchase:

- Puerto Rico, Guam, American Samoa, Northern Mariana Islands, and the U.S. Virgin Islands

3.3 Minimum Loan Amount

The minimum eligible loan amount is $150,000.

3.4 Debt to Income ("DTI")

Max DTI permitted: 50%.

DTI up to 55% allowable in Expanded Prime only with the following requirements:

- Minimum 700 FICO
- Max 80% LTV/CLTV/HCLTV
- Primary residence only
- No FTHB
- 1.5x minimum residual income as defined in Section 12.3

Please refer to the respective Product Matrix for specific DTI limits.

Loans with a DTI greater than 43% or HPML must follow the residual income requirements as noted in Section 12.3.

3.4.1 Qualifying Payment

For fixed rate loans, apply the fixed rate based on the original balance fully amortized over selected term.

For I/O payment, calculate using the initial rate based on the original balance and remaining amortizing term at the end of the I/O period (i.e., 240 months or 360 months). Qualifying payment for I/O must include a principal component. Applicable to Expanded Prime and Expanded Non-QM.

3.5 Cash-Out Limits

Please refer to the respective Product Matrix for Cash-Out limits.

3.6 Prepayment Penalties

Permitted on Non-Owner Occupied (Investment Properties) only. Prepayment penalties on primary residences and second home transactions are prohibited.

Where permitted by applicable laws and regulations. Total points, fees and APR may not exceed current state and federal high-cost thresholds. Please note that prepayment penalties are not permitted in New Jersey.

Loans defined as high-cost mortgages under Federal or state law, regardless of the basis for the loan's treatment as such are not eligible.

3.7 Reserves

Please refer to the respective Product Matrix for Reserve requirements.

Reserves are calculated off actual P&I payment plus taxes, insurance, and HOA fees (PITIA). Reserves for an Interest Only ("IO") loan will be based on the initial Interest Only payment (ITIA).

Additional reserves are required for Borrower(s) with additional financed properties other than the Subject property (Applicable to Expanded Prime, Expanded Non-QM, and Expanded Non-QM (Flex)). Expanded DSCR does not require reserves for additional financed properties, (Subject property only).

- Borrower(s) will be required to meet the subject property reserve requirement plus an additional two (2) months of reserves for each additional financed property, capped at a total of twelve (12) months reserves for all financed properties (including Subject property)

For example: Borrower with five (5) financed properties with a total monthly PITIA/ITIA of $5,000 must have an additional $10,000 in reserves in addition to the Subject property requirements.

Reserves must be documented per 10.1 Documentation.

Cash-Out proceeds may be used in reserve calculation.

4 BORROWER ELIGIBILITY

4.1 Eligible Borrowers

- ✓ U.S. Citizens
- ✓ Permanent Resident Aliens
- ✓ Non-Permanent Resident Aliens
- ✓ Non-Occupant Co-Borrowers
- ✓ Inter Vivos Revocable Trust (must meet FNMA requirements)

4.2 Permanent Resident Alien

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 two (2) years that has an expiration date, if it is accompanied by a copy of USCIS form I-751 requesting removal of the conditions
- Un-expired Foreign Passport with an unexpired stamp reading as follows: "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

4.3 Non-Permanent Resident Aliens

4.3.1 Non-Permanent Resident Aliens must meet the following requirements:

The following Visa classifications are allowed as Non-Permanent Resident Aliens and may require additional diligence review:

VISA CLASSIFICATIONS		
• L-1	• H-1B	• O-1

Copies of the Borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is a Form I-797, I-797A, I-797B, or I-797C (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 six (6) months of note date, 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 Department of Homeland Security'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:

https://www.dhs.gov/visa-waiver-program-requirements

4.3.2 Non-Permanent Resident Alien Program Restrictions

- ✓ Maximum 80% LTV/CLTV/HCLTV
- ✓ Purchase and Rate / Term Refinances only

4.4 First Time Home Buyers

First Time Home Buyers ("FTHB") are individuals that have not owned a home or had a residential mortgage in the last three (3) years. Note: a borrower is not classified as a FTHB if they are vested on any property title within the past three (3) years. Borrowers vested on title to their primary residence but not on the Note will still require a 12-month housing history.

The following are required for FTHB:

- Maximum payment shock of 250%

- Maximum DTI 50%
- Rent free FTHB who are unable to meet Payment Shock requirements, are permitted with no credit exceptions. Housing history requirement pertaining to rent free borrowers identified in Section 7.2 must be followed
- Please refer to the respective Product Matrix for additional FTHB restrictions

4.5 Non-Occupant Co-Borrower

Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property. The following requirements must be met:

- ✓ Must be an immediate relative, proof of relationship is required
- ✓ Must sign the mortgage/deed of trust
- ✓ Must not have an interest in the property sales transaction
- ✓ Maximum LTV/CLTV/HCLTV of 80% or limited as posted on applicable Product Matrix, whichever is lower
- ✓ Single unit primary residence only
- ✓ Maximum DTI of 43%
- ✓ Additional six (6) months reserves required
- ✓ Occupying Borrower must have documented income equal to 75% of PITIA
- ✓ Purchase and Rate/Term Refinance only

4.6 Entity Vesting for Limited Partnership (LP), General Partnership (GP), Corporations (Corp) and Limited Liability Companies (LLC)

4.6.1 Entity Vesting Requirements

Properties vested in any of these manners are limited to Investment and Business Purpose. The following requirements must be met:

- ✓ Entities must be formed for the purpose of ownership and management of real estate
- ✓ All entity owners (max four (4)) must be disclosed and credit qualify
- ✓ All Borrower(s) must execute the *Occupancy Certification*.
- ✓ For DSCR Borrower(s) who are obtaining a Rate/Term or Cash-Out Refinance loan, the Borrower(s) must execute the *Business Purpose & Occupancy Affidavit*.
- ✓ When vesting in an entity, no additional Borrowers are allowed to join an entity on Title or on the subject loan

4.6.2 Required Entity Documentation

The following entity documents are required:

- ✓ Articles of Incorporation
- ✓ Operating Agreement (or equivalent)
- ✓ Tax Identification Number
- ✓ Certificate of Good Standing (must be dated within 30 days of closing)

4.6.3 Layered Entity Structures

Layered entities are permitted up to two (2) layers when the ownership structure is consistent between the top entity and bottom entity. For example, if the borrower is ABC LLC, which is 100% owned by XYZ LLC, and John and Mary Smith are the sole owners of XYZ LLC, then John and Mary Smith must be the borrowers. The ownership chain must be clear and aligned.

- ✓ Entities layered with a trust are not eligible
- ✓ Guideline requirements above must be met for each entity

4.6.4 Entity Signature Requirements

The Note must be signed by the borrower(s) in their individual capacity and as a member(s) and/or managing member(s) of the entity.

The Mortgage/Deed of Trust/Security Instrument must be signed by the borrower in their capacity as a member(s) and/or managing member of the entity.

4.7 Ineligible Borrowers

Loans that have been made to any of the following Borrower types are ineligible:

- ✓ Irrevocable or Blind Trusts
- ✓ Layered entity with a Trust
- ✓ Land Trusts
- ✓ Non-profit organizations
- ✓ Borrowers with diplomatic immunity
- ✓ DACA & asylum applicants
- ✓ Borrower deriving their income from any Cannabis related business
- ✓ Borrowers(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. government authority
- ✓ Limited Partnerships, General Partnerships, Corporations, Limited Liability Companies (“LLCs”)
- ✓ Non-Resident Aliens
- ✓ ITIN borrowers living in the U.S.

5 OCCUPANCY ELIGIBILITY

5.1 Primary Residence

A primary residence is a property that the Borrower(s) currently resides in (refinance) or intends to occupy (within sixty (60) days) as his or her principal residence.

- ✓ 2–4 Unit properties are eligible as primary residencies provided, they are common for the area and exhibit no unique characteristics that can influence marketability. Please contact the Purchaser if there are questions or concerns on a specific property.

Characteristics that may indicate that a property is used as a Borrower's primary residence include:

- Occupancy by the Borrower for the major portion of the year
- Location is relatively convenient to the Borrower's principal place of employment
- Property is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar matters
- Borrower may not own an additional single-family residence of equal or greater value than subject property
- Property possesses physical characteristics that accommodate the Borrower's family

5.2 Second Homes

A property is considered a second home when it meets all the following requirements:

- Must be located a reasonable distance away from the Borrower(s) principal residence
- Must be occupied by the Borrower(s) for some portion of the year
- Is restricted to a one-unit dwelling
- Must be suitable for year-round occupancy
- The Borrower(s) 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 otherwise give control of the subject property to a management firm
- Gift funds not permitted on Second Homes > 80% LTV/CLTV/HCLTV

5.3 Non-Owner Occupied

Occupancy designation for an income producing property where the Borrower does not occupy the Subject property.

- All borrower(s) must execute the *Occupancy Certification*
- For DSCR borrower(s) who are obtaining a Rate/Term or Cash-Out refinance loan, the borrower(s) must execute the *Business Purpose & Occupancy Affidavit*

5.3.1 Ineligible for Non-Owner Occupied

- ✓ Gift funds not permitted on Non-Owner-Occupied loan > 80% LTV/CLTV/HCLTV

6 TRANSACTION ELIGIBILITY

6.1 Eligible Transactions

6.1.1 Purchase

A purchase transaction is one which allows a buyer to acquire a property from a seller where the proceeds of the transaction are used to finance the acquisition of the Subject property.

The lesser of the purchase price or appraised value of the Subject property is used to calculate the LTV/CLTV/HCLTV.

Sellers must have owned the property for more than 12 months, otherwise the transaction is subject to review as a Flip Transaction. Scenarios that meet the definition of a Flip Transaction as defined in Section 6.1.6 below must meet the requirements provided in that section.

- Bank-owned REO and Corporate Relocations are eligible and not considered a flip transaction.

Maximum Interested Party Contributions permitted up to 6%.

6.1.2 Rate / Term Refinance

A Rate / Term Refinance transaction is when the new loan amount is limited to the payoff of a present mortgage for the purpose of changing the interest rate and/or term of mortgage only with no additional cash or advancing of new money on a loan unless it is below the limited cash-out amount.

A seasoned non-first lien mortgage is (1) a purchase money mortgage or (2) a closed end or HELOC mortgage that has been in place for more than twelve (12) months and/or not having any draws greater than $5,000 in the past twelve (12) months.

- Withdrawal activity must be documented with a transaction history from the HELOC

Limited cash to the Borrower must not exceed the lesser of $5,000 or 2% of the principal amount of the new mortgage to be considered a Rate / Term refinance.

The LTV/CLTV/HCLTV will be based on appraised value. Loan must be used to pay off existing lien on the subject mortgage and cash to the Borrower must not exceed the lesser of $5,000 or 2% of the principal amount of the new mortgage.

Properties that have been listed for sale by the Borrower within the past six (6) months from the Note date may not be currently listed or listed at the time of the loan application and will require a borrower LOE and listing cancellation. Multiple listings within the past twelve (12) months are not eligible.

The rate / term refinance of a construction loan is eligible with the following conditions:

- ✓ If the lot was acquired twelve (12) or more months before applying for the subject loan, the LTV/CLTV/HCLTV is based on the current appraised value of the property
- ✓ If the lot was acquired less than twelve (12) months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of (i) the current appraised value of the property and (ii) the total acquisition costs.

Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance.

Refinancing of a Land Contract is considered a purchase and LTV/CLTV/HCLTV should be calculated using purchase price.

6.1.3 Cash-Out Refinance

A Cash-Out Refinance transaction allows the Borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner to obtain a mortgage on a

property that is currently owned free and clear. The Borrower can receive funds at closing if they do not exceed the program requirements.

To be eligible for a Cash-Out Refinance the Borrower must have owned the property for a minimum of six (6) months prior to the Note date. For DSCR Cash-Out seasoning and guidance, please refer to section 9.8.

Properties that have been listed for sale by the Borrower within the past six (6) months from the Note date may not be currently listed or listed at the time of the loan application and will require a borrower LOE and listing cancellation. Multiple listings within the last twelve (12) months are not eligible.

If the property is owned less than twelve (12) months but greater than six (6) months at the time of note date, the LTV/CLTV/HCLTV for the transaction will be based on the lesser of the original purchase price plus documented improvements such as invoices and/or confirmed by the appraiser, or current appraised value. The prior settlement statement will be required for proof of purchase price.

Refinance of a previous Cash-Out seasoned < 1 year will be considered Cash-Out refinance.

Refinancing of a Land Contract is considered a purchase and LTV/CLTV/HCLTV should be calculated using purchase price.

Please refer to the applicable Program Matrix for specific details regarding maximum LTV/CLTV/HCLTV and Cash-Out amounts. NOTE: Cash-Out includes funds received at closing as cash back and any applicable debts paid off outside the original non-purchase money transaction.

6.1.4 Property Buyouts and Inherited Properties

Refinances of inherited properties legally awarded to the borrower, including DSCR loans, are allowed. This includes divorce, separation and dissolution of a domestic partnership. Seasoning requirements do not apply, and the following guides must be met:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained
- Equity owners must be paid through subject loan's settlement
- Subject property has cleared probate and property is vested in the borrower's name
- Current appraised value is used to determine loan-to-value

6.1.5 Subordinate Financing

New subordinate financing (institutional) allowed for purchase transactions only.

Primary residences only.

If a HELOC is present the LTV/CLTV/HCLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the line amount of the HELOC (whether there have been any draws), and

the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value.

All subordinate loan obligations must be considered, verified, and considered when calculating the Borrower's DTI.

If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction.

For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment.

Interest Only not permitted.

Existing subordination is permitted on refinances.

6.1.6 Flip Transactions

When the subject property is being resold within three hundred sixty-five (365) days of its acquisition by the seller and the sales price has increased more than ten (10%), the transaction is considered a "flip". To determine the three hundred sixty-five (365) day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- No assignments of the contract to another buyer
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained
- An additional appraisal product is required as defined in section 13.1

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: https://www.consumerfinance.gov/rules-policy/final-rules/appraisals-higher-priced-mortgage-loans/

A second appraisal is required, prior to closing, in the following circumstances:

- Greater than ten (10%) increase in sales price if seller acquired the property in the past ninety (90) days
- Greater than twenty (20%) increase in sales price if seller acquired the property in the past one hundred eighty (180) days
- The Borrower may not pay for the 2nd appraisal

6.1.7 Delayed Financing

Delayed purchase financing is available when a property was purchased by a Borrower using cash, within one hundred eighty days (180) from the date of purchase to the new mortgage note date.

The original purchase transaction must be an arm's length transaction.

The source of funds for the original purchase transaction must be documented (bank statements, personal loan documents, HELOC from another property as example).

The maximum LTV/CLTV/HCLTV for the transaction will be based on the lower of the current appraised value of the subject or the purchase price plus any of the fully documented improvements such as invoices and/or receipts for work performed and confirmed by the appraiser.

The preliminary Title information must confirm that there are no existing liens on the property.

The loan is considered a Cash-Out transaction. Cash-Out loan, LTV/CLTV/HCLTV and other limitations apply.

6.1.8 Non-Arm's Length Transactions

Non-Arm's length transactions allowed on primary purchase transactions only.

- Renter(s) purchasing from landlord
  - 12-months of cancelled checks to prove timely payments are required
  - A verification of rent (VOR) is not acceptable
- Purchase between family members
  - Gift of equity requires a gift letter, and the equity gift credit is to be shown on the CD
    - Borrower to provide verification of earnest money deposit
  - Must provide a 12-month mortgage history on the existing mortgage securing the subject property, confirming the sale is not a foreclosure bailout
- Builder transactions are ineligible as noted in Section 6.2

6.1.9 Employee Loans

Any employee of the Purchaser, broker, or originator involved in the loan must qualify with Full Documentation or DSCR for the transaction.

6.2 Ineligible Transactions

- ✓ Assignments of Contracts
  - If there are no fees involved, the assignment may be considered on an exception basis, and if approved, they are subject to an LLPA
- ✓ Construction Loans
- ✓ Temporary Buydowns
- ✓ Builder Bailout & Model leasebacks
- ✓ Builder-related transactions if:
  - The transaction is a builder refinance, and the builder/developer (or an affiliated entity) has built more than four (4) units in the same subdivision, development, or condominium project as the subject property; or
  - The loan is secured by a newly constructed second home or investment property (purchase or refinance) and the borrower has a relationship or business affiliation with the builder, developer, or seller
- ✓ Conversion Loans
- ✓ Rent Credits
- ✓ Lease Option
- ✓ Texas 50(a)(6)
- ✓ CEMA
- ✓ Daily Simple Interest Loans
- ✓ Tenants in Common, unless all parties vested match the actual borrowers of the loan

7 CREDIT ELIGIBILITY

7.1 Credit Report Detail

A tri-merged in file credit report from all three repositories is required. The use of the classic FICO credit score model is required for all programs. No exceptions permitted for alternative scoring models.

A written explanation for all inquiries within ninety (90) days of application is required disclosing no new debt.

Alternate confirmation that there is no new debt may include a new credit report, pre-close credit score soft-pull or gap report.

- DTI should be recalculated based on any new debt
- Any new credit scores must be reviewed for qualifications
- If debt monitoring indicates that a late payment has occurred, then the loan must be re-evaluated. Re-evaluation may result in a change in eligibility, repulling credit, additional documentation requirements, pricing adjustments, program adjustments, or a combination of the aforementioned items.

7.2 Housing History

Twelve (12) months' housing history is required. Twelve (12) month mortgage/housing history includes all occupancy types – Primary, Second Home and Investment Properties. A primary residence housing

payment history is required whether or not the borrower is on the Note or vested on title of their primary residence. If primary housing is documented as free and clear, no exception is needed.

If the subject property has delinquent taxes > one year from the note date, this will be considered on a case-by-case basis and will require an investor exception approval, subject to LLPA.

Any additional housing history included in the loan file that reflects delinquencies will be subject to review and must adhere to the loan program matrix.

All mortgages and rental payments should be current at the time of closing. If the credit report or VOR/VOM reflects a past-due status, updated documentation is required to verify the account is current.

Housing history evidenced by twelve (12) months proof of payment via cancelled checks, bank debits or institutional VOR.

- When the subject property or the borrower's primary residence has a private party mortgage (e.g. individual, private lender, hard money lending), the following documentation is also required:
  - Borrower's proof of payment for the most recent 6-months (such as cancelled checks, bank statements, ACH payments, bank transfer/wire, electronic payment method)

If the borrower is living rent-free as a dependent with family and a twelve (12) month housing history is not applicable, a rent-free letter is required, and the non-borrower must provide their 12 month housing payment history. For FTHB, rent-free is permitted with no credit exceptions.

Past due balloon will be considered a delinquency (1x30) and not a housing event, but only within one hundred eighty (180) days of maturity.

7.3 Credit Scores

To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided.

Lowest Representative Credit Score of all borrowers is used to qualify.

Borrowers must have a valid score from at least two (2) of the following three (3) agencies: Experian, Trans Union, and Equifax

Credit rescores must be completed prior to loan lock, except in the event of a disputed item or valid error. Documentation must be provided to support the reason that a credit rescore was performed.

7.4 Credit Report Requirements

7.4.1 Tradelines

Each Borrower's credit profile must include a minimum of two (2) trade lines within the last twenty-four (24) months that show a twelve (12) month history, or a combined credit profile between Borrower and co-Borrower with a minimum of three (3) tradelines.

Tradeline activity is not required; and can be opened or closed. Examples of unacceptable tradelines include loans in a deferment period, collection or charged-off accounts, accounts discharged through bankruptcy and authorized user accounts.

Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks / debits).

Borrower(s) not using income to qualify are not required to meet the minimum tradeline requirements listed above.

- This does not pertain to DSCR loans, where the borrower(s) must adhere to the tradeline requirements above

Authorized user accounts must be used to calculate DTI ratio but will not be included in the number of eligible tradelines.

7.4.2 Credit Events

- ✓ Prior Bankruptcies (Chapter 7, 11, 13) are permitted based upon the respective Product Matrix. Multiple bankruptcies are not permitted
- ✓ Prior Foreclosure, Short Sale, Deed-in-Lieu, and Modification (due to default), Notice of Default, Lis Pendens, and 120+ days delinquency are permitted based upon Product Matrix
- ✓ Borrowers currently enrolled in credit counseling or debt management plans are not permitted
- ✓ All Judgments or liens affecting title must be paid
- ✓ Non-title charge-offs and collections within three (3) years and exceeding $5000 (individually or aggregate) must be paid
- ✓ Medical collections less than $15,000 are not required to be paid
- ✓ All past due accounts must be brought current prior to closing
- ✓ Disputed accounts require a LOE
- ✓ IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on any property
- ✓ All Borrowers must be current on mortgage or rent at loan application
- ✓ All derogatory revolving and installment accounts > sixty (60) days within four (4) years of closing require a full explanation
- ✓ Delinquent credit belonging to ex-spouse can be excluded if late payments occurred after the divorce / separation, and divorce decree / separation agreement indicates derogatory accounts belong solely to the ex-spouse
- ✓ Security freeze – Credit reports may not contain a security freeze and should be resolved prior to an underwriting decision. Unfrozen reports after the date of the original credit report require a new tri-merged report

- ✓ Defaulted timeshares – Timeshares including delinquencies are treated as installment loans and not a housing event

8 INCOME DOCUMENTATION

Unless otherwise noted in the Program Guidelines or in a specific Program Matrix, all borrowers should have a two-(2) year income history from employment or other allowable sources. The expectation is that income year over year is stable or shows a trend with a gradual increase. This type of income should be averaged for the borrower(s) gross monthly income used to qualify. A reasonable expectation should be present that the borrower(s) source(s) of income will continue for the foreseeable future.

In cases where a borrower(s) income is declining or shows unusual or unexpected fluctuation, careful consideration must be given to the income being reviewed and the reason for the decline or fluctuation. Proper discretion must be exercised to determine the extent or probability of impairment of the borrower's income and earning ability moving forward. Conservatively, the lesser income should be used when a declining situation is present. A letter of explanation is required from the borrower(s) to support the circumstances. Borrowers that show continued declining income without a reasonable explanation or proof that the trend will not continue are not eligible to use that income for qualification.

Income documented through Alternative Documentation programs may be combined with other income sources that are documented as Full Documentation but not associated with self-employment, such as a spouse employed as a wage earner. When wage income is combined with Alternative Documentation, a tax return is not required as this would invalidate the bank statements. Form 4506-C is still required; however, Box 8 should be checked to obtain a transcript of the W-2 earnings only. Combined income documentation types are intended for separate Borrowers on the same loan (B1 and B2 for example). Cases of combined income types for the same Borrower are not generally allowed. Please contact Underwriting Management for questions or additional information.

Please note that any employee of Purchaser, broker or originator that is party to the subject loan must be qualified using full documentation.

8.1 Full Documentation

8.1.1 Wage Earners

- ✓ Most recent paystub (most recent thirty (30) day period) including year-to-date earnings (YTD must cover minimum of thirty (30) days)
- ✓ Two (2) years IRS 1040s or W2's and a Written Verification of Employment (if needed for the analysis of overtime, bonus, or commission)
- ✓ 4506-C W2 transcripts or 4506-C transcripts (If 1040 transcripts are provided, W2 transcripts are not required)
    - In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment

  - Evidence of any IRS filing extensions must also be present in the loan file
- ✓ Verbal Verification of Employment (VVOE):
  - Must be completed within ten (10) calendar days of the closing date
  - VVOE should include name of contact at place of employment, phone number and title along with company name, address, and Borrower's job description and title
  - A Borrower who is no longer employed at the same employer listed on the initial URLA will not be eligible

8.1.2 Self-Employed Borrowers

A Borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation.

- ✓ Two (2) years personal & business tax returns (including all schedules and K-1's) plus YTD P&L from any businesses being used for qualification where the Borrower has 25% or more ownership interest
- ✓ If the P&L covers more than nine (9) months, three (3) month bank statements are required to validate the continued positive cash flow of the Borrower's business. Additional bank statements may be required if deemed necessary
- ✓ Borrower(s) qualifying with 1099s must provide two (2) years 1099s
  - Generally limited to single employer and requires employer confirmation of no Borrower job related expenses
    - If a Borrower is not able to provide confirmation of no job-related expenses, a 10% Expense Factor will be applied
    - In scenarios where the Borrower receives multiple 1099s, the Borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc)
  - Most recent check stub (or three (3) months bank statements for 1099) including year-to-date earnings (YTD must cover minimum of thirty (30) days)
- ✓ 4506-C 1040 tax transcripts/ 1099 transcripts
  - Business tax transcripts not required if net business income is validated on the Borrower's 1040s
  - In the case where taxes have been filed and the tax transcripts and/or 1099 transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
  - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
  - Evidence of any IRS filing extensions must also be present in the loan file
- ✓ Independent verification of the business through a third party such as a CPA, regulatory agency, or applicable licensing bureau must confirm that the business has been in existence for at least two (2) years
- ✓ Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing
- ✓ Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- ✓ Self-employed paying themselves W-2 or K-1

- The ordinary income from the borrower's business multiplied by the borrower's ownership % should be used to qualify along with any W-2 wages that they pay themselves. Double counting is not allowed.

✓ Declining income – Self-employed
- Declining income of the last two (2) years may be utilized for qualifying with signed letter of explanation from the Borrower. Lower of the two (2) years would then be used to qualify unless the income has stabilized over the most recent six (6) months

Borrower will be qualified on the lower of:

- Monthly average of the net income from the tax return and P&L or
- Monthly net income from tax return multiplied by 115%

8.2 Streamline Documentation (One Year Verification of Income)

8.2.1 Wage Earners

✓ One (1) year IRS 1040 or W2 or one (1) year 1099
✓ Most recent paystub including year-to-date earnings (YTD must cover minimum of thirty (30) days)
✓ 4506-C W2 or 1099 transcripts (If 1040 transcripts are provided, W2 transcripts are not required)
- In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
- Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
- Evidence of any IRS filing extensions must also be present in the loan file

✓ Verbal Verification of Employment (VVOE)
- Must be completed within ten (10) calendar days of the closing date
- VVOE should include name of contact at place of employment, phone number and title along with company name, address, and Borrower's job description and title
- A Borrower who is no longer employed at the same employer listed on the initial URLA will not be eligible

8.2.2 Self-Employed Borrowers

A Borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S-corporation.

✓ One year personal and business tax returns (including all schedules and K-1's) plus a YTD P&L for each business being used for qualifying (where the Borrower has 25% or more ownership interest)

- ✓ If the P&L covers more than nine (9) months, three (3) month bank statements are required to validate the continued positive cash flow of the Borrower's business. Additional bank statements may be required if deemed necessary
- ✓ Borrower(s) qualifying with 1099s must provide one (1) year 1099s
    - 4506-C 1099 transcripts (if 1040 transcripts are provided, 1099 transcripts are not required
    - 1099 generally limited to single employer and requires employer confirmation of no Borrower job related expenses
        - If a Borrower is not able to provide confirmation of no job-related expenses, a 10% Expense Factor will be applied
        - In scenarios where the Borrower receives multiple 1099s, the Borrower must be in an industry where this is a common occurrence (entertainment, medical contractor, etc)
        - Most recent check stub (or three (3) months bank statements for 1099) including year-to-date earnings (YTD must cover minimum of thirty (30) days)

Borrower will be qualified on the lower of:

- Monthly average of the net income from the tax return and P&L or
- Monthly net income from tax return multiplied by 115%

- ✓ All Borrowers must also provide evidence that business has been in existence for at least two (2) years via CPA / Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau
- ✓ Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing
- ✓ Self-employed Borrower income in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that has been in existence for less than two (2) years, but greater than one (1) year if the Borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field
- ✓ IRS form 1040 personal and business 4506-C tax transcripts required for the tax return year used for qualifying
- ✓ 1040 tax transcripts/1099 transcripts
    - Business tax transcripts are not required if net business income is validated on the Borrower's 1040s
    - In the case where taxes have been filed and the tax transcripts and/or 1099 transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file
    - Must document that taxes have been filed via evidence of e-filing, tax refund, or proof of payment
    - Evidence of any IRS filing extensions must also be present in the loan file

8.3 Asset Depletion / Asset Utilization

Asset-based programs are designed to meet the Ability to Repay (ATR) requirements. This is accomplished by requiring a debt to income (DTI) in the Asset Depletion program and the requirement

of a residual income calculation in the Asset Utilization program. The unrestricted liquid assets can be comprised of eligible assets as listed in section 8.2.3.

For Asset Depletion, the utilization of financial assets will be considered as Borrower income to qualify for their monthly payments.

For Asset Utilization, the utilization of financial assets will be used to calculate a Borrower's residual income.

A Borrower using Asset Depletion/Asset Utilization cannot use other sources of employment income.

- Non employment sources of income will be considered on a case-by-case basis

8.3.1 Program Requirements

Asset Depletion/Asset Utilization will be qualified under the Full Documentation Program Matrix with restrictions outlined in the Product Matrix.

Reserves are not required for Borrower(s) qualifying with Asset Depletion/Asset Utilization programs.

Asset Depletion Requirements:

Borrowers must have a minimum of the lesser of:

- $1mm in Qualified Assets OR must have Qualifying Assets >= to 125% of the original loan amount
  - The minimum amount of qualified assets that a borrower must have is $450k
- The borrower must have a debt to income (DTI) that qualifies per the respective Program (Prime or Non-QM)

Asset Utilization Requirements:

- Borrowers must have a residual income greater than or equal to Section 12.3 Residual Income
- Total post-closing assets must be >/= 125% of the original subject loan amount
- The minimum amount of qualified assets that a borrower must have is $450k

Not permitted:

- Non-Owner Occupied or Second Homes (see program Matrix for max LTV and program eligibility)
- Cash-Out
- Gift funds
- Business Assets
- Foreign Assets
- Non-Occupant Co-Borrower
- For accounts with margin loans, only the margin amount that is available for withdrawal is allowed

8.3.2 Eligibility

Borrowers must have a minimum of $450K in Qualifying Assets and a minimum FICO of 700.

Assets used for qualifying must be seasoned for one hundred twenty (120) days unless pre-approved by the Purchaser.

Net Assets:

- If the assets or a portion of the assets are being used for down payment or costs to close, those assets should be excluded from the balance before analyzing a portfolio for income qualification
- Funds for closing must be liquidated and documented according to section 10.1

Qualifying Assets:

- Net assets multiplied by the following percentages:
  - 100% checking / savings / money accounts
  - 100% trust assets (must fully meet FNMA guidelines)
    - Copy of full trust is required; certification of trust is not acceptable
  - 100% of Life Insurance / annuity (cash surrender value)
  - 80% of the remaining value of stocks / bonds / mutual funds
  - 70% for all vested retirement assets
  - 60% of the current valuation from Bitcoin or other cryptocurrencies
    - Loan file must include documentation proving borrower's ownership of the crypto assets. The current valuation must be sourced exclusively from Coinbase and the valuation must be dated within 30 days of the Note date.
  - For accounts with margin loans, only the margin amount that is available for withdrawal is allowed

8.3.3 Qualifying Income

Asset Depletion: Qualified assets with utilization draw schedule of seven (7) years (Qualified Assets divided by 84).

Asset Utilization: To determine residual income, Qualifying Assets are divided by eighty-four (84) months. From this number, subtract the Borrower's total monthly debt obligation (total liabilities) to produce the Borrower's residual income. Do not impute tax deductions when determining residual income. Residual income must meet or exceed Section 12.3 Residual Income.

8.4 Bank Statements

The Bank Statement program is designed for borrowers with an active U.S. based business that is generating stable revenue. Borrowers that only receive income from passive or portfolio sources are

ineligible. For example, borrowers managing their own rental properties, distributions from a limited partnership, day trading, property flipper, etc are not eligible to qualify using the Bank Statement program.

Bank Statement loans submitted with tax returns or tax transcripts must follow Full Documentation guidelines. Any loan file using qualifying income from Bank Statements with evidence of tax returns or tax transcripts in the origination file will be ineligible.

Borrowers paid 1099 from a single company are not eligible for Bank Statement qualification and must qualify through Section 8.1 or Section 8.2.

Borrowers who are using more than three (3) businesses to qualify must use the Personal Bank Statement option.

Documentation Requirements:

- ✓ Twelve (12) or twenty-four (24) months consecutive, bank statements required.
- ✓ Any loan submitted with less than twelve (12) months of consecutive bank statements will not be eligible.
- ✓ Business Narrative
    - Borrower must provide a business narrative which includes details relating to the size / score and operating profile of the business, including the following:
        - Description of Business / Business Profile
        - Location and Associated Rent
        - Number of Employees / Contractors
        - Estimated Cost of Goods Sold if any
        - Materials / Trucks / Equipment
        - Commercial or Retail Client Base
- ✓ An internet search of the business is required with documentation to be included in the credit file to support the Business Narrative. Underwriter certification (or notation on the 1008) if there are not returns when attempting an internet search
- ✓ Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing
- ✓ Multiple bank accounts may be used
- ✓ Co-mingling:
    - Co-mingling of personal and business accounts is not permitted in personal bank accounts. Evidence of comingling will require the loan to be submitted / qualified as a business bank statement loan
    - Two (2) months of business bank statements must be provided to validate Borrower utilizes separate banking accounts
    - Bank statements must be most recent available at time of application and must be consecutive

8.4.1 Personal Bank Statements

8.4.1.1 Documentation Analysis

Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds) must be excluded from the analysis.

Unusually large deposits exceeding 100% of monthly income (as defined by Fannie Mae) into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required.

Two (2) months of business bank statements are required. These statements should evidence activity to support business operations and reflect transfers to the personal account.

- A borrower who only utilizes a personal account for business activity and does not have an associated business account is eligible to qualify through Section 8.4.2 (Business Bank Statements)
- Co-mingling of personal and business receipts is not permitted

If the bank statements provided reflect payments being made on obligations not listed on the credit report, a thorough analysis must be performed and LOE provided from the Borrower.

Declining income may require an LOE.

8.4.1.2 Business requirements

- ✓ Validation of a minimum of two (2) years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- ✓ Ownership percentage must not be less 25% and documented via CPA letter, Operating Agreement, or equivalent
- ✓ Borrowers who own more than three (3) businesses must use personal bank statements option

8.4.1.3 Qualifying Income

For personal bank statement qualifying, it is the lowest of the following:

- Personal bank statement average (total eligible deposits / 12 or 24 months)
- If a Borrower has declining income and is qualifying with twenty-four (24) months of bank statements, the last twelve (12) months of income will be utilized to qualify
- Monthly income disclosed on the initial signed URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount

8.4.2 Business Bank Statements

8.4.2.1 Documentation Analysis

Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business-related income.

Large deposits exceeding 100% of monthly income (as defined by Fannie Mae) into bank accounts must be explained via LOE and must be consistent with the business profile. If LOE is sufficient, no sourcing required.

Declining income may require an LOE.

NSFs may require a Borrower LOE documenting they are not due to financial mishandling or insufficient income. A maximum of 3 NSF occurrences within a twelve-month period are allowed. If there are zero occurrences in the most recent three-month period, up to 6 occurrences in the most recent twelve-month period are acceptable. NSFs should be covered with deposits shortly after they are incurred.

Expense line items that can be added back to the business net income include depreciation, depletion, amortization, casualty losses, and other losses or expenses that are not consistent and recurring.

8.4.2.2 Business Requirements

- ✓ Validation of a minimum of two (2) years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- ✓ Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- ✓ Minimum 50% business ownership required
- ✓ Borrowers utilizing business bank statements that own ≥25% but < 100% of a business will be qualified at the net income multiplied by their ownership percentage

8.4.2.3 Income Qualification (Three Options)

Option 1 (Expense Ratio)

- ➢ Percentage of gross deposits (twelve (12) or twenty-four (24 months)) using expense ratio factor based on business type and number of employees.
- ➢ Qualifying income will be the lower of the Expense Ratio formula or monthly income disclosed on the initial signed URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount.
- ➢ Expense ratio should be reasonable for the profession.
- ➢ Qualifying income should be multiplied by the Borrowers documented business ownership.
- ➢ If a Borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify.
- ➢ Example: Borrower with $25,000 monthly average deposits multiplied by a 50% expense factor = $12.5k in qualifying income.

EXPENSE RATIO				
Number of Additional Employees/Contractors		0	1-5	>5
Service Business (Offers Services)	Examples: • Financial Planning • Information Technology	15%	30%	50%

	• Accounting • Legal • Therapy	• Insurance • Counseling • Consulting		
Product Business (Sells Goods)	Examples: • Retail • Food Services • Restaurant	• Manufacturing • Contracting • Construction	25%	50%	85%

Option 2 (3rd Party Profit & Loss Statement)

- Qualifying income is the lower of the Profit & Loss ("P&L") net income from the validated third-party prepared P&L or monthly income disclosed on the initial signed URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount
- Businesses qualifying with a P&L statement showing less than a 15% expense ratio will be limited to a 15% ratio. Expense ratio should be reasonable for the profession
- Borrower prepared P&L will not be permitted under any circumstances
- Business Bank Statements are used to validate third-party prepared P&L. Gross revenue listed on P&L must be within +/-10% of the total qualified deposits
- If a Borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- The following documentation is required:

    - Twelve (12) or twenty-four (24) months complete business bank statements from the same account (transaction history printouts are not acceptable)
    - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
    - P&L statement must be prepared by a Tax Professional
        - Tax Professional defined as a Certified Public Accountant ("CPA"), Tax Attorney, Enrolled Agent ("EA"), California Tax Educational Council member ("CTEC") or Paid Tax Professional (PTIN)
    - P&L statement must cover the same months as the bank statements submitted
    - P&L must be signed by the Borrower and the Tax Professional
    - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
    - Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
    - Tax Professional must have filed the Borrower's most recent two (2) years business tax returns

Option 3 (3rd Party Expense Ratio)

- Qualifying income is the lower of the 3rd Party Prepared Expense Ratio net income or monthly income disclosed on the initial URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount

- To determine net income, multiple eligible business deposits by the following: (100% minus the Expense Ratio)/ 12 or 24 months)
- 3rd Party Prepared Expense Ratio floored at 15%
- If a Borrower has declining income and is qualifying with twenty-four (24) months of business bank statements, the last twelve (12) months of income will be utilized to qualify
- The Expense Statement must be prepared and signed by a third-party Tax Professional specifying business expense as a percentage of the gross annual sales/revenue
- Self-employed Borrowers who have filed their own business tax returns are ineligible
- The following documentation is required:

    - Twelve (12) or twenty-four (24) months complete business bank statements from the same account (transaction history printouts are not acceptable)
    - Business bank accounts, personal bank accounts addressed to a DBA or personal accounts with evidence of business expenses can be used for qualification
    - Tax Professional must attest that they have audited the business financial statements or reviewed working papers provided by the Borrower
    - Tax Professional must certify that the Expense Statement represents an accurate summary of the applicable cash expenses of the business
    - Tax Professional must attest that they are not related to the Borrower or associated with the Borrower's business
    - Tax Professional must have filed the Borrower's most recent two (2) years business tax returns
    - Tax Professional license must be verified and signed

8.5 12 Month Profit & Loss (P&L) and Written Verification of Employment (WVOE)

8.5.1 12 Month Profit & Loss (P&L)

8.5.1.1 Eligibility

- ✓ Self-employed Borrower(s) only. Self-employed Borrower(s) who file their own tax returns are not eligible
- ✓ Minimum of two (2) years self-employment in the current profession
    - Validation of a minimum of two (2) years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- ✓ Self-Employed defined as Borrower owning >=25% ownership of respective business
- ✓ Ownership percentage must be documented via Certified Public Account ("CPA")/IRS Enrolled Agent ("EA")/California Tax Education Council ("CTEC") letter, Operating Agreement or equivalent
- ✓ The CPA/EA/CTEC preparing the P&L must have filed the Borrower's most recent business tax returns

8.5.1.2 Documentation Requirements

- ✓ Most recent 12-month Profit & Loss statement (P&L). P&L end date must be less than sixty (60) days old at closing
- ✓ All Profit & Loss statements must be completed by an independent CPA/EA/CTEC

- ✓ The CPA/EA/CTEC prepared P&L must be signed by both the Borrower and CPA/EA/CTEC
- ✓ CPA/EA/CTEC must provide attestation that they prepared Borrower's tax returns and that they are not related to the Borrower or associated with Borrower or Borrower's business
- ✓ The CPA/EA/CTEC must attest that they have performed either the following functions:
  - Audited the business financial statements
  - Reviewed working papers provided by the Borrower
- ✓ Credit file must contain documentation that the CPA/ CTEC license is verified and active. A screen shot of the IRS web site for an IRS Enrolled Agent (EA) is acceptable
- ✓ Borrower narrative on nature of business required
- ✓ An internet search of the business is required with documentation to be included in the credit file to support existence of the business
- ✓ Employment verification documentation must be consistent with information on the loan application and Borrower's credit report
- ✓ Verification of business existence and that the business is fully operational/active required within ten (10) calendar days of closing

8.5.1.3 Qualifying Income

Qualifying income is the lower of the 12 Month Profit & Loss statement (P&L) or monthly income disclosed on the initial signed URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount.

8.5.2 Written Verification of Employment (WVOE)

8.5.2.1 Eligibility

- ✓ Wage earners only
- ✓ Two (2) years history of employment in same industry and 1-year continuous employment at current job

8.5.2.2 Documentation Requirements

- ✓ A Written Verification of Employment (FNMA Form 1005) can be utilized when the only source of earnings is wages/salary
- ✓ FNMA Form 1005 must be fully completed by Human Resources, Payroll Department, or an Officer of the Company. The form must be sent and received directly from the employer
- ✓ Verification of delivery and receipt of the FNMA Form 1005 must be in the file
  - Verification of delivery and receipt of the FNMA Form 1005 must comprise the following form of documentation: Physical mail, Fed-Ex, facsimile, or email communication. Physical mail, Fed-Ex, and facsimile must come directly from the employer's address. An email communication must properly identify the Company representative
- ✓ Borrower(s) employed by a family member or related individuals are not eligible for qualification under the WVOE program
- ✓ FNMA Form 1005 must have a twenty-four (24) month history of wage earnings/salary
- ✓ FNMA Form 1005 must contain the following:
  - Dates of employment
  - Position

  - Prospect of continued employment
  - Base pay amount and frequency
  - Gross Earnings: year to date plus last two (2) year's earnings, or at least one (1) year earnings if current job is less than two (2) years
  - Additional salary information
  - Bonus
  - Overtime
  - Tips
  - Commission Income
- ✓ Paystubs, Tax Returns, 4506-C, or W-2's not required
- ✓ A Verbal Verification of Employment (VVOE) must be performed within ten (10) calendar days prior to the funding date
  - A Borrower who is no longer employed at the same employer listed on the initial URLA will not be eligible
- ✓ VVOE should include the name of contact at place of employment, phone number and title along with company name, address and Borrower's job description and title. Verbal verification of employment for previous jobs within last two (2) years
- ✓ Employment verification documentation must be consistent with information on Borrower's credit report

8.5.2.3 Qualifying Income

Qualifying income is the lower of the income disclosed on the FNMA Form 1005 or monthly income disclosed on the initial signed URLA unless the borrower provides a satisfactory signed explanation letter why the initial URLA shows a lower amount.

8.6 Supplemental Income Sources

Joint Accounts – A joint personal account with a non-borrowing spouse or domestic partner can be used for qualifying as follows:

- If not contributing income / deposits, it must be validated by a Borrower affidavit
- If contributing income / deposits, source must be clearly identified (direct deposit, SSI, trust income) and amounts must be subtracted from the analysis
- Relationship letter must be present in file

8.6.1 Rental Income (Non-DSCR)

8.6.1.1 Eligibility

Rental income is permitted for both purchase and refinance transactions including non-subject properties. 100% ownership is not required, however allowed income will be calculated based on ownership percentage and 100% of PITIA must be used regardless of ownership percentage.

8.6.1.2 Documentation Requirements

The file must include supporting documentation detailing the PITIA breakdown for each property owned.

- Reported on tax returns:
  - Schedule E net income should be used for loans utilizing full/streamline documentation types to qualify
- Not reported on tax returns or loans qualifying with alternative documentation types to qualify:
  - Refinance transactions:
    - Lease agreement
    - Two (2) months cancelled checks to show proof of rental payments, or if subject is recently rented, a copy of two of the following is acceptable:
      - First month's rent
      - Last month's rent
      - Security deposit
    - Evidence that rent is market rate (free online source is permitted)
    - 75% of lease agreement and proof of receipt utilized for qualifying income
  - Purchase transactions:
    - The lesser of the rental income identified on the 1007 rental schedule or current lease
      - If the existing lease from seller is transferring to borrower, the lease that predates the mortgage could have a superior claim to the mortgage. Clear title and first lien enforceability must be vetted
    - 75% utilized for qualifying income

8.6.2 Short-Term Rental Income (Non-DSCR)

8.6.2.1 Eligibility

Permitted for both purchase and refinance transactions. All Short-Term Rental (STR) must be deemed common and typical for the area per the appraisal and/or property location and permitted in accordance with local ordinances. For STR income reported on tax returns, please follow the guidance from Section 8.6.1.2

8.6.2.2 Documentation Requirements

- Loan file must include supporting documentation detailing the PITIA breakdown for each property owned.
- STR income must be documented on the appraisal
- Short term rental history must be verified through a third-party property management provider such as AirBnB, VRBO, or HomeAway. Documentation must contain property address or unique property ID specific to subject property

  - On refinances, gross rent is the lower of:
    - 75% of the market rent disclosed on the appraisal or
    - 100% of actual twelve (12) month short term history via AirBnB, VRBO, HomeAway, or a third-party property management provider. 12-month history is required for refinance transactions
  - On purchase transactions, gross rent is based on 75% of market rent stated in the appraisal

8.6.3 Trust Income

Income from trusts may be used if constant payments will continue for at least the first three (3) years (or 5) of the mortgage term as evidenced by trust income documentation. 5 years required if income source is >50% of loans total qualifying income.

- ✓ See section on Ancillary Income for limits on adjusting current distributions and continuance
- ✓ Trust Agreement required confirming amount, distribution frequency, and duration of payments

8.6.4 Alimony Income / Child Support

- ✓ Final Divorce decree or legal separation agreement required
- ✓ Must provide payment evidence of six (6) months via cancelled checks, deposit slips, or bank records
- ✓ Alimony, child support requires proof of three (3) or five (5) year continuance (5 years if income source is > 50% of loans total qualifying income)

8.6.5 Note Receivable Income

- ✓ Copy of the note confirming amount and length of payment
- ✓ Must provide payment evidence of twelve (12) months via cancelled checks, deposit slips, or bank records
- ✓ Verification that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage note

8.6.6 Royalty Payment Income

- ✓ Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income –must document a three (3) year continuance
- ✓ Must provide payment evidence of twelve (12) months via cancelled checks or bank records / deposits

8.6.7 Retirement Income

The following types of income documentation is required:

- Copy of award letter or letters from the organizations providing the income and
- Most recent two (2) months bank statements showing deposit of funds

8.6.8 Self Employed / Wage Earner Combination for Joint Borrowers

Joint Borrowers with one (1) wage earner and one (1) self-employed business owner can verify income separately, with the self-employed Borrower utilizing bank statements or 12 Month Profit & Loss ("P&L") and the wage earner providing pay stubs / W-2s or WVOE

- The wage earner 4506-C should include W-2 transcripts only
- Combination scenario must be qualified and priced to the income verification with the highest loan level pricing adjustments ("LLPAs")

8.7 Additional Employment & Income

8.7.1 Work History

A minimum of six (6) months of employment is required unless recently graduated from school or completion of formal training.

8.7.2 Employment Gaps

The borrower must explain any employment gaps exceeding thirty (30) days in the last twelve (12) months and sixty (60) days in the last thirteen to twenty-four (13-24) months.

8.7.3 Recently transitioned W-2 to 1099

Borrowers recently transitioned from W2 to 1099 and contracted by the same employer in the same position do not require two (2) years 1099s if documentation is provided to support that the borrower will not be responsible for additional expenses, i.e., contract.

Borrowers who remained in the same industry but transitioned from W2 to 1099 with a different company must be in their current position for at least one (1) year.

8.7.4 Ancillary Non-Employment Income – Continuance

- ✓ Borrowers of retirement age do not require proof of continuance if income received from corporate, government or military retirement or pension
- ✓ Alimony, child support requires proof of three (3) or five (5) year continuance (5 years if income source is > 50% of loans total qualifying income)
- ✓ IRA / Discretionary Retirement Account Distributions / Trust Distribution – Continuance
  - IRA or Trust distributions cannot be set up post application date unless the Borrower is required to start withdrawing based on age. In such cases, 125% of the required minimum amount can be used to qualify
  - Distributions must have been received for prior six (6) months to application to be considered as eligible income. Distributions that have been received for six (6) months or more can be adjusted with a letter from the plan administrator validating the increase. Allowable increases of distribution amount are limited to 125% of previously received distributions. Continuance for 5 years at the proposed monthly amount is required if distributions represent > 50% of the loans total qualifying income (please note this overlay to Fannie Mae). Please refer to Asset Utilization for Borrowers wishing to draw assets to qualify
  - One of the following types of income documentation is required:
    - Copy of award letter or letters from the organizations providing the income
    - Most recent personal income tax return with all schedules

- Most recent W2 or 1099
- Most recent two (2) months bank statements showing deposit of funds

8.7.5 Restricted Stock (RSUs)

✓ Must meet FNMA guidelines

8.7.6 Averaging of bonus / commission, 2 years

A two (2) year average is required. Exceptions for a shorter timeframe may be considered when the following criteria is met:

- Minimum one year history of receipt
- Documentation from employer stating that type of pay is likely to continue

8.7.7 Secondary Employment

Second job income considered stable if received for two (2) years and likely to continue. The borrower must be working at both jobs simultaneously for both incomes to be considered.

8.7.8 Foreign Sources of Income

Foreign income is income earned by a Borrower employed by a foreign government / company and not paid in US dollars. Acceptable utilization if the following criteria satisfied:

- Two (2) years US Tax returns reflect the foreign income
- Income is translated to US dollars
- Income documentation, stability and continuance requirements are met
- Income from countries under OFAC sanctions not permissible

8.7.9 Grossing up nontaxable income

Non-taxable income to be grossed up 125%.

8.7.10 Two-year Business validation – Name change / re-organization

Considered continuous if business name changes within last two (2) years or restructured (i.e., from sole proprietor to LLC, S-Corp, etc.). Not applicable for DSCR program.

9 EXPANDED DEBT SERVICE COVERAGE RATIO ("DSCR") PROGRAM, NON-OWNER OCCUPIED ONLY

9.1 DSCR Calculation

A Debt Service Coverage Ratio (DSCR) ratio is required. DSCR = Gross Rental Income/ PITIA or DSCR = Gross Rental Income/ITIA for Interest Only loans.

DSCR loans will be qualified at the original Note Rate.

Gross Income will be calculated using the lower of the A) executed lease agreement or B) market rent from applicable Appraisal.

- If executed lease agreement reflects a higher monthly rent than Appraisal, it may be used in the calculation with sufficient evidence of receipt. Three (3) most recent, consecutive months must be provided.

The following are not eligible for Expanded DSCR Program:

- Vacant properties *(for refinance transactions)* except for properties currently vacant due to the subject property having undergone recent renovation or rehab, with the intention of being rented out soon. Support must be provided via the appraiser confirming recent work completed and providing visual evidence. In these scenarios, market rent from the 1007 schedule in the property appraisal may be used to qualify.
- Any loan where Cash-Out proceeds would be utilized for personal use
- FTHB (First Time Homebuyers)

9.2 Short-Term Rental Income (DSCR)

9.2.1 Eligibility

STR is permitted for both purchase and refinance transactions. All Short-Term Rental (STR) must be deemed common and typical for the area per the appraisal and/or property location and permitted in accordance with local ordinances.

Maximum LTV/CLTV/HCLTV is 70%

Minimum DSCR is 1.00

Maximum loan amount is limited to $2.0mm

9.2.2 Documentation Requirements

- STR income must be documented on the appraisal
- Short term rental history must be verified through a third-party property management provider such as AirBnB, VRBO, or HomeAway. Documentation must contain property address or unique property ID specific to subject property

    - On refinances, gross rent is the lower of:

- 100% of the market rent disclosed on the appraisal or
- 100% of actual twelve (12) month short term history via AirBnB, VRBO, HomeAway, or a third-party property management provider. 12-month history is required for refinance transactions

- On purchase transactions, gross rent is based on 100% of market rent stated in the appraisal

9.3 Reserve Requirements

Reserves are calculated off actual P&I payment plus taxes, insurance, and HOA fees (PITIA). For Interest Only loans, reserves will be calculated off the initial Interest payment, plus taxes, insurance, and HOA fees (ITIA).

No requirement for additional reserves for other financed properties, Subject Property reserves only. See DSCR Matrix for specific reserve requirements.

Cash-Out proceeds can be utilized for reserves on loans.

9.4 Employment Verification

9.4.1 Wage Earner / Salaried Borrower

- ✓ Salaried/wage earner can provide an employment letter on company letterhead signed by an authorized representative of the company
  - Letter should contain date, address, position, and amount of time employed
  - FNMA Form 1005 could also be utilized
- ✓ Additional documented verification of employment can be utilized, if reasonable

9.4.2 Self-Employed Borrowers

- ✓ Self-employed Borrowers can provide a letter from their Tax Professional certifying a minimum of two years' business experience
  - Accountant letter should contain name, address, phone, and license number
  - Tax Professional should provide the above information and include proof of their appropriate licensing information
- ✓ Additional documented verification of employment can be utilized, if reasonable

9.4.3 No Employment Verification

Borrowers who do not provide adequate employment verification are still eligible for the Expanded DSCR Program.

9.5 Professional Investors

Expanded DSCR Program is only eligible for Professional Investors. Professional Investors must have at least twelve (12) months of experience owning and/or managing income-producing real estate within the most recent thirty-six (36) months of the Note date.

- ✓ First time investors are allowed provided that the DSCR is > 1.0, the credit score is > 700, and there are no exceptions on the file.
- ✓ Max loan amount is limited to $2.0mm
- ✓ First time investors may not also be a first-time homebuyer.

A Letter of Explanation (LOE) by the Borrower is required to detail relevant real estate experience. The Purchaser reserves the right to request specific documentation to validate the LOE.

Mortgage loans involving builder-related transactions are ineligible if:

- The transaction is a builder refinance, and the builder/developer (or an affiliated entity) has built more than four (4) units in the same subdivision, development, or condominium project as the subject property; or
- The loan is secured by a newly constructed second home or investment property (purchase or refinance) and the borrower has a relationship or business affiliation with the builder, developer, or seller

9.6 Rent Loss Insurance

Rent loss insurance for the subject property is required and must equal at least six (6) months of local average monthly rents. Blanket policies covering the subject property are permitted.

9.7 Assignment of Rent

1-4 Family Rider/Assignment of Rents must be in origination file (FNMA Form 3170)

9.8 Cash-Out

Cash-out proceeds on a refinance loan are allowed with the following requirements:

- Borrower must have owned the subject property 6+ months using date of original acquisition and subject loan note date for timing
- Cash-out is for business purposes only and the borrower must provide an LOE detailing the purpose and use of the proceeds
  - Major renovations/rehabs on the subject property that could deem the property uninhabitable are ineligible
- For DSCR Borrower(s) who are obtaining a Rate/Term or Cash-Out refinance loan, the Borrower(s) must execute the *Business Purpose & Occupancy Affidavit*
- All Borrowers must execute the *Occupancy Certification*

- Please refer to Program Matrix for specific details regarding maximum LTV/CLTV/HCLTV and Cash-Out amounts

10 ASSETS

10.1 Documentation

- ✓ Full Asset Documentation is required for both funds to close and reserves. For most asset types, this would include all pages of the most recent one (1) month statement, the most recent quarterly statement, or FNMA approved third party direct pull services
- ✓ 100% trust assets (must fully meet FNMA guidelines)
  - Copy of full trust is required; certification of trust is not acceptable
- ✓ Publicly traded Stocks / Bonds / Mutual Funds – 100% may be used for reserves
  - Account with margin loans may only be used on an exception basis and may only use the loan amount available for withdrawal
- ✓ Vested Retirement Accounts – 100% may be considered for reserves
- ✓ Bitcoin or other forms of cryptocurrency are permitted for both funds to close provided the cryptocurrency has been converted or liquidated to cash. Seasoning requirements not applicable given liquidation
  - For reserves, liquidation of cryptocurrencies is not required. Documentation proving borrower's ownership of the crypto assets is required. The current valuation must be sourced exclusively from Coinbase, and the valuation must be dated within 30 days of the Note date. Up to 60% of the current value may be used for reserves.
- ✓ Assets being used for dividend and interest income may not be used to meet reserve requirements
- ✓ Follow FNMA guidelines on liquidation of funds used for down payment, closing costs, and/or reserves
- ✓ Builder profits are not allowed
- ✓ Maximum Interested Party Contributions permitted up to 6%
- ✓ Rent credits not permitted
- ✓ LOE required for large deposits exceeding 100% of monthly qualifying income. If LOE is sufficient, sourcing may not be required
  - For DSCR, large deposits should be in line and consistent with the borrower's overall credit profile. A letter of explanation and sourcing may be required

10.2 Business Assets

Business assets are an acceptable source of funds for down payment, closing costs, and reserves for self-employed borrowers if all the following requirements are met:

- ✓ The borrower must have a minimum of 25% ownership of the business
  - Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- ✓ The borrower must be owner on the business account
- ✓ All non-borrowing owners of the business must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the funds in the account

- ✓ The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of the business assets allowable for the transaction
- ✓ A signed letter from a CPA or Underwriter Cash Flow Analysis must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business (not required on DSCR loans)

10.3 Gift Funds

- ✓ Gifts from family members, as defined by FNMA, are allowed
  - Gift of Equity permitted for primary residence purchase transactions only. Must meet all other guidelines for gift funds
- ✓ Gift funds cannot be counted towards reserves

General Requirements:

- Purchase transactions only

Gift funds not permitted:

- Borrowers utilizing Asset Depletion/Asset Utilization to qualify
- Second Homes and Investor properties > 80% LTV/CLTV/HCLTV

Down Payment Requirements:

- Gift funds are acceptable as 100% down payment for loans <75% LTV/CLTV/HCLTV
- Gift funds are acceptable for loans >=75% LTV/CLTV/HCLTV however the underlying Borrower(s) must contribute at least 5% of the transaction (lower of Purchase Price or Appraised Value) from their own funds
  - Example: A $500,000 purchase price where LTV/CLTV is going to be 75% or higher would require the borrower to provide $25,000 of their own funds ($500,000 x 5% = $25,000)

10.4 Other Asset Sources

10.4.1 Life insurance cash value

Life insurance policy current cash value or loan against the cash value may be used for down payment, closing costs or reserves.

10.4.2 Foreign Assets

Foreign assets are acceptable and must be sixty (60) days seasoned with the two (2) most recent bank statements. A currency calculation must be provided.

Assets from countries under OFAC sanctions are not permitted.

10.4.3 Non-borrowing Spousal Joint Accounts

Allowable with relationship letter. If the loan is a bank statement loan or 12-month P&L loan, a non-borrowing joint account holder affidavit is required to ensure no deposits by that non-Borrower is included as income.

10.4.4 Restricted Stock

Restricted stock is ineligible to be used for reserves.

10.4.5 Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the assets is not a party to the property sale transaction or the mortgage financing transaction. Documentation required supporting Borrower ownership of the asset, independent valuation of the asset, ownership transfer of the asset and Borrower's receipt of sale proceeds.

10.4.6 Employer assistance

Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan are permitted. Funds must come directly from the employer, may be used for down payment / closing costs subject to minimum Borrower contributions, may be used for reserves except for unsecured loans and are only eligible for primary residence. Any obligation for the borrower that arises from receipt of this assistance must be included in qualifying the borrower.

10.4.7 1031 Assets

Funds held by a 1031 administrator / agent are permitted for down payment and closing costs. Reverse 1031 exchange transactions are not permitted.

11 LIABILITIES

11.1 Departing Residence

Departing residence positive rental income cannot be used to qualify. Departing residence PITIA/ITIA can be offset by 75% of projected net rental income or if the subject is recently rented, a copy of two of the following will be acceptable: (1) first month's rent, (2) last month's rent, (3) security deposit. Departing residence rental that produces a loss must be included in DTI.

Borrowers qualifying with a departing residence may be subject to additional fees and/or conditions.

- An additional 3 months early payoff protection may be required except in the following circumstances:

- If the departing residence is being converted to an investment property and the following is provided:
  - An executed twelve (12) month lease from the tenant **and**
  - Evidence of payment for a minimum of two of the following:
    - First month's rent
    - Last month's rent
    - Security deposit
- If the departing residence is under contract for sale with evidence of:
  - Earnest Money Deposit **and**
  - The sale will occur prior to or within 30 days of subject loan funding

Departing residence obligation can be excluded if:

11.1.1 If no contract in place

- ✓ Currently listed or signed letter of intent from Borrower indicating they intend to list the departure residence for sale within ninety (90) days of closing on subject transaction
- ✓ Equity in the departure residence must be documented with a 2055 exterior appraisal or full appraisal. Departure residence must have a minimum of twenty (20%) equity after deduction of outstanding liens to exclude the payment from the DTI. If less than twenty (20%) equity, the full payment must be included in the DTI
- ✓ Required reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal:
  - If appraisal indicates marketing time of six (6) months or less = twelve (12) months PITIA/ITIA
  - If appraisal indicates marketing time over six (6) months = twenty-four (24) months PITIA/ITIA

11.1.2 If under contract

A copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared / satisfied. The departure transaction must be closing within thirty (30) days of the subject transaction. The pending sale transaction must be arm's length.

No appraisal required for departure residence. The Borrower must be netting a positive number from the sale of the property or assets must be accounted for to cover any funds the Borrower may have to bring to closing on the sale of the departure residence.

11.2 Property Tax Estimates for New Construction

Property taxes should be calculated using 1.5% of sales price for qualification (1.25% in California). Use of other property tax rates is allowed provided the rates are documented in the file.

11.3 Student Loan

Student loan payments must be included regardless of deferment or repayment in the DTI ratio. If a payment amount is not identified, 1% of the current loan balance may be utilized.

Affordability based payments may be used.

11.4 Solar leases

Must conform to FNMA guidelines. PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible.

11.5 Payoff of debt to qualify

Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with i.) a credit supplement, ii.) Verification from the creditor liability as paid in full or iii.) Evidence of payoff on Closing Disclosure.

11.6 Debts paid by others / contingent liabilities

Contingent liabilities can be excluded from DTI if the Borrower provides evidence that their business or another individual / entity has made payments for twelve (12) months (0x30). Any liability related to a separation or divorce can be omitted if ordered by a family court. Documentation from the court is required.

11.7 Obligations paid by business

Excludable if can be tied to business related activities (i.e., vehicle) and twelve (12) months (0x30) proof that business pays. Expense must be evident in business financials and the borrowing entity is an individual.

12 UNDERWRITER ANALYSIS

All loan files should contain underwriter worksheets which detail the qualifying income calculations and debt obligations considered or not considered (and reason for exclusion).

12.1 Compensating Factors

A loan that exhibits a credit underwriting exception should have at least two compensating factors that are not related to the specific exception, that are intended to offset or mitigate the exception. Each loan presents a unique and individual set of circumstances and should be reviewed and considered based on their own content. The following list of possible compensating factors identifies some common types of compensating factors that may apply to a loan.

- FICO score above program minimum by twenty (20) points or higher
- DTI below program maximum by 5% points or greater
- PITIA/ITIA reserves above program minimum by six (6) months or higher
- Reduction in housing payment by 10% or greater
- Increase in residual income by 10% or greater
- Residual income $1,000 above the program minimum required
- 0x30x24 month housing history
- Five (5) years minimum in subject property
- Job stability of five (5) years or more

12.2 Exceptions

Exceptions to the guidelines will be considered on a loan-by-loan basis. Loans with exception requests should exhibit strong documented compensating factors as seen in section 12.1 and are subject to additional LLPAs.

12.3 Residual Income

Residual income equals Gross Qualifying Income Less Monthly Debt (as included in the debt-to-income ratio).

If the loan is an HPML, or if the DTI exceeds 43%, Borrowers must have a minimum monthly residual income as required below:

Total in Household	Required Residual Income
1	$1,500
2	$2,500
Add $150 for each additional household member	

12.4 Documentation Age

Unless otherwise stated in this guide, all credit documents including credit report, income docs, and asset statements must be dated no more than one hundred twenty (120) days prior to the note date. The note date is utilized for document expiration for all funding types.

13 PROPERTY

13.1 Appraisal

- ✓ All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for HPMLs, if applicable
- ✓ The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction

- ✓ An appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent or other interested party is not acceptable
- ✓ Two appraisals are required to be delivered for either of the following scenarios: loan amounts > $2,000,000 or HPML flip transactions as defined by the CFPB. Interior photos are required
- ✓ Original appraisals are good for one hundred twenty (120) days from the note date. Any appraisal dated greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser and is good for an additional 120 days. If the loan does not close within the initial recertification, then another update may be obtained but the original appraisal must be dated within 12 months of the note date.
- ✓ Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed
- ✓ Appraisals with condition or quality ratings of C5 or C6 will not be eligible
- ✓ Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- ✓ For 2–4 unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required
- ✓ Transferred appraisals are not permitted

13.2 Third Party Appraisal Review

The appraised value (or lowest value if two appraisals are required) is the only value used to determine the property value for the subject loan. Any secondary valuation products are provided only to support the value of the origination appraisal and are not meant to be used as a substitute value for the property.

A third-party review that validates the origination appraisal must be completed. Either a Clear Capital - Collateral Desktop Analysis “CDA” or a Stewart Valuation (fka Protek Valuation) - Appraisal Risk Review “ARR” are acceptable. Additional vendors that are Rating Agency approved may be eligible with pre-approval. Loans delivered without a third-party valuation report are subject to having a report completed to ensure the origination value is supported.

The Appraisal Review final opinion of value must be within:

- -10% of the origination appraisal(s)
- LTVs > 85% must be within 5%

If the review value fails the above-mentioned variances, an additional valuation report must be provided to support the origination appraisal. The required report types must meet the required variance levels stated above. Review values greater than the origination appraisal have no tolerance requirements. The report types, in order, are as follows:

- Field Review
- 2055 Exterior appraisal

Collateral Underwriter (CU) and/or Loan Collateral Advisor (LCA) may be utilized as a secondary valuation if the score is <=2.5. The file must include a copy of the Submission Summary Report. If they are both run, they must be done at the same time; only one needs to have a passing score.

Desk review and other review products are not required for loans with two (2) appraisals.

13.3 Declining Markets

Properties in a declining market require a 5% reduction to the LTV/CLTV/HCLTV caps indicated in the respective Product Matrix. The appraisal and/or other third-party valuation (ie Desk Review) is utilized to identify properties in declining markets.

13.4 FEMA Disaster Areas

A list of federally declared disaster areas may be found on the FEMA website at http://www.fema.gov.disasters

Documentation must be obtained to confirm that the subject property has not been adversely impacted by a disaster. In addition, when there is knowledge of an adverse event occurring near or around the subject property, including but not limited to earthquakes, floods, tornadoes, or wildfires, additional due diligence is required to determine when the disaster area guidelines must be followed.

Guidelines for disaster areas should be followed ninety (90) days from the incident period, unless a completed appraisal dated post-incident is provided.

13.4.1 Appraisal Completed Prior to Disaster

- ✓ Appraisal update or final inspection from the appraiser must be obtained.
- ✓ Damage that impacts the safety or habitability of the property or damage more than $2000 will not be eligible.

13.4.2 Appraised After Disaster Incident

- ✓ Appraiser must comment on the adverse event and any effect on marketability or value
- ✓ Damage that impacts the safety or habitability of the property or damage more than $2000 will not be eligible

13.4.3 Disaster Incident Occurs After Closing, Prior to Funding

- ✓ A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck will need to be provided
- ✓ Any indication of damage reflected on the report will require a re-inspection by the appraiser
- ✓ Damage that impacts the safety or habitability of the property or damage more than $2000 will not be eligible

13.4.4 Verbal Verification of Employment

- ✓ A new Verbal Verification of Employment (VVOE) must be obtained if the disaster event occurs after the original VVOE was completed

- ✓ Borrower should still be employed at the same employer listed on the initial URLA and continuing to receive the same amount of income

13.5 Eligible Property Types

- ✓ One Unit Single Family Residences (Attached, Detached and Modular)
  - Single Family properties with ADU (Accessory Dwelling Unit) follow FNMA requirements and restrictions
- ✓ 2-4 Unit Properties (3-4 units eligible for Non-Owner Occupied only)
- ✓ PUDs – Attached and Detached
- ✓ Townhouses
- ✓ Warrantable Condo (see details in Section 13.5.1)
- ✓ Detached site condominiums and two-to-four-unit condominium projects do not require a project review and qualify for single family dwelling LTV/CLTV/HCLTV, provided the following are met:
  - The priority of common expense assessments applies
  - The standard insurance requirements apply
  - The project is not a condotel, houseboat project, or a timeshare or segmented ownership project
  - The project is not in Condo Project Manager (CPM) with a status of "Unavailable"
  - There are not any unaddressed or outstanding critical repairs
  - The project is not under an evacuation order
  - For 2-4 unit condo projects, the same owner cannot own more than 50% of the units
- ✓ Maximum of 20 acres

13.5.1 Condominium Projects

Condo reviews must follow the Fannie Mae (FNMA) Selling Guide, unless additional criteria are specified. All reviews must include the following:

- ✓ A certification, similar to the *Condominium Project Warranty Certification*
- ✓ HOA *Condominium Questionnaire* (Form 1076) or similar
- ✓ Master insurance certificate including HO6, along with all required coverages
- ✓ Current budget
- ✓ Recorded declarations/CC&Rs and by-laws
- ✓ Additional documentation may be required by underwriting to complete the project review
- ✓ Condominium Project Manager (CPM) Approval
  - The project must have a valid, unexpired CPM Certification as of the date of the Note and a copy must be included in the loan file (acceptable statuses are "Approved by Fannie Mae" and "Certified by Lender")

13.5.1.1 Eligible Projects

The project and unit must meet the following eligibility requirements:

- The project meets the general requirements for condos or PUDs
- The project does not include any manufactured homes

- No more than 15% of the units have special assessments that are 60 or more days past due
- The project does not exhibit any characteristics that would classify it as an ineligible condominium project under Fannie Mae (FNMA) guidelines, including but not limited to:
  - Condotels, including projects with registration services and/or projects that operate as motel/hotel
  - Projects subject to split ownership arrangements
  - Projects that contain multi-dwelling unit condos or co-ops
  - Projects with property that is not real estate
  - Projects that operate as a continuing care community or facility
  - Non-incidental business arrangements
  - Commercial space and mixed-use allocation
  - Recreational leases and mandatory memberships
  - Live-work projects
  - Litigation or pre-litigation activity
  - Single-entity ownership
  - Projects in need of critical repairs
  - Projects terminating or involved in insolvency proceedings
- The project is not in Condo Project Manager (CPM) with a status of "Unavailable"

13.5.1.2 Expiration Dates for Project Reviews

Project Review Process Employed	Expiration of Project Review
Full Review for Established Projects	CPM assessment and underwriting review must have been completed within one year prior to the Note date. A new questionnaire and warranty certification are required for each loan transaction.
Full Review for New Projects	CPM assessment and underwriting review must have been completed within 180 days prior to the Note date. A new questionnaire and warranty certification are required for each loan transaction.

13.5.1.3 Florida Condominium Project Overlays

The following overlays apply to Florida condos that are three (3) or more stories high and thirty (30) years or older (25 years or older if the building is within 3 miles of the coastline):

- ✓ Evidence is required that the building has completed the required inspections outlined in FL SB-4D
  - If the building has not completed the required inspections, it is ineligible
- ✓ If the inspection revealed a substantial structural deterioration and/or any unsafe or dangerous conditions, evidence that the required repairs have been completed is required
- ✓ Evidence is required that the Association has completed the required structural integrity reserve study, and the budget adequately contains sufficient reserves

  - The monthly HOA fee should be consistent with the budget
- ✓ 48 hours prior to closing, Purchaser must re-verify that the project has maintained its approved status

13.6 Ineligible Properties

- ✓ Manufactured Homes
- ✓ Residential units with ≥ 5 units
- ✓ Log Homes
  - Faux log homes (properties with a Log Cabin aesthetic, ie Log Cabin siding) may be eligible. Please contact Underwriting Management for additional information/pre-approval
- ✓ Condotels or Motels
- ✓ Condominium projects with registration services or restrictions on owner's ability to occupy
- ✓ Non-Warrantable Condo Projects
  - 2-4 Unit Condos without an established and recorded common maintenance agreement are considered non-warrantable
- ✓ Cooperatives (CO-OPs)
- ✓ Unique Properties
- ✓ Unpermitted Additions
- ✓ Leasehold Properties
- ✓ Mixed Use Properties
- ✓ Builder Model Leaseback
- ✓ Boarding Houses
- ✓ Group Homes
- ✓ Fractional Ownership/Timeshares
- ✓ Assisted Living/Continuing Care Facilities
- ✓ Mandatory Country Club Memberships
- ✓ Zoning Violations
- ✓ Properties under Construction
- ✓ Barndominiums
- ✓ Agricultural zoned properties may be considered on a case-by-case basis
- ✓ Hawaii properties located in lava zones 1 and/or 2
- ✓ Multiple dwellings on the same lot (legal ADU acceptable, must follow FNMA criteria)
- ✓ Working Farms
- ✓ C5 or C6 Property Condition Grades
- ✓ Live/Work Condos
- ✓ Earth Berm Homes
- ✓ Geodesic Domes
- ✓ Houseboats
- ✓ Homes on Native American Land (Reservations)
- ✓ Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- ✓ Theme Park Resort Properties
- ✓ Tenancy in Common (TIC) Properties

14 ADDITIONAL GUIDELINE REQUIREMENTS

14.1 Requirements not Specifically Referenced

The Program is intended to reference and supplement Fannie Mae's Seller Guide. Fannie Mae Seller Guide may be referenced for specific information concerning qualification requirements that are not specifically referenced herein. To the extent there is a difference in standards between the Program Overlays and the Fannie Mae Guides; the Program Overlays may be relied upon.

14.2 Ability to Repay

All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c)

14.3 Agency Ineligibility

All applicable loans are required to have evidence of agency ineligibility.

Ineligibility may be documented through a DU or LP underwriting findings report in file verifying the loan does not qualify for delivery, or as evidenced on the 1008.

Evidence of agency acceptability is sufficient if evidence the Program pricing and/or terms are more beneficial to the Borrower than the comparable agency product.

14.4 High Cost

Federal, State, and Local High-Cost Loans are not permitted. Cured High-Cost loans are also not eligible.

14.5 Fraud

The Purchaser has a zero-tolerance policy as it relates to fraud. A fraud prevention pull is required from Data Verify, Core Logic, SAS, or a similar engine.

14.6 Hazard Insurance (1-4 Unit Properties)

One to Four Unit Properties:

- 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, or
- The unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date

All other coverages/property types follow FNMA policy.

14.7 Flood Insurance (1-4 Unit Properties)

The minimum amount of flood insurance required for the first mortgage must be equal to the lesser of:

- 100% of the replacement cost value of improvements,
- The maximum coverage amounts available from NFIP, or
- The unpaid principal balance (UPB) of the loan (or loan amount at the time of origination)

All other coverages/property types follow FNMA policy.

14.8 Escrows

Mandatory escrows for taxes and insurance will be required for all HPMLs (5 years).

14.9 Escrow Holdbacks

Escrow holdbacks are not allowed.

14.10 Assumability

Fixed rate loans are not assumable.

14.11 Manual Underwrite

All loans must be manually underwritten.

14.12 Uniform Residential Loan Application (URLA)

All loan applications taken on or after March 1, 2021 (mandatory usage date) must be submitted using the revised URLA.

14.13 Maximum Financed Properties

The maximum number of financed properties for any one Borrower is limited to twenty (20) residential properties.

Maximum exposure to single Borrower: $7.5mm in unpaid principal balance or ten (10) residential properties.

The borrower(s) will be required to meet the subject property reserve requirement plus an additional two (2) months of reserves for each additional financed property, capped at a total of twelve (12) months reserves for all financed properties (including Subject property).

Additional reserve requirement for other financed properties is not applicable on Expanded DSCR loans.

14.14 Power of Attorney

Limited Power of Attorney (POA) is acceptable for executing closing documents, is specific to the transaction, contains an expiration date, initial URLA is signed by the Borrower executing the POA.

Not permitted on:

- Cash-Out transactions
- Entities (LLC, Corporations, Entity Borrowers, etc)

14.15 E-Signatures

E-signatures are permitted except for the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, documents that require a Notary signature, Riders / Addendums, and any state regulated disclosures. These documents require a wet signature.