FUNDLOANS

ALTA (SUPER JUMBO)
GUIDELINES

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INTRODUCTION

FundLoans Capital's (hereafter referred to as FundLoans) Credit Guidelines establish standards and criteria in which a loan will be eligible for funding. Brokers/Originators should use these Guidelines to understand how FundLoans assesses risk and to understand FundLoans program specifics and our process flow. **If a topic is not addressed within these guidelines, FundLoans will align with Fannie Mae (FNMA) Manual Underwriting guidelines.**

The Credit Guidelines provide detailed requirements for eligibility but FundLoans is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guides does not create a commitment by FundLoans to fund, as FundLoans has sole discretion to fund any loan.

State and Federal specific regulatory requirements supersede all underwriting guidelines set forth by FundLoans.

Broker Responsibilities

FundLoans Credit Guidelines must be interpreted and applied in a manner that complies with the laws and regulations established by the Consumer Financial Protection Bureau (CFPB) and any other applicable laws and regulations.

FundLoans has a no-tolerance policy as it relates to fraud. Brokers/Originators should have and continue to follow their own established fraud and identity procedures for every loan to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of tax transcripts, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be funded by FundLoans and will trigger clawback provisions as applicable in the Broker Agreement. Any determination of Broker/Originator involvement and/or knowledge of misrepresentation will result in the dissolution of any relationship. The appropriate agencies may be notified.

Additional Requirements

- Deviations from the underwriting guidelines based on compensating factors may require an exception and must be documented in the loan file.
- Negative Amortization Features or Equity Participations loans are not permitted.
- FundLoans does not fund loans defined as high-cost mortgages (or equivalent terms) under Federal or State law.
- U.S. Territory loans are not allowed. Properties must be in the United States.
- With respect to each Mortgage Loan, (1) each Mortgagor or Guarantor is a natural person and (2) at the time of origination, the Mortgagor was legally entitled to reside in the United States.
- Occupancy - the Broker/Originator gave due consideration, at the time of origination, to information contained within the Mortgage Loan File, to evaluate whether the occupancy status of the related Mortgaged Property as represented by the Mortgagor was reasonable. For business purpose loans, the Borrower must complete the Business Purpose & Occupancy Affidavit.
- No Mortgage Loan underwritten pursuant to a bank statement income documentation program was underwritten using fewer than twelve consecutive months of bank statements.
- No Mortgage Loan was underwritten utilizing a borrower-prepared Profit and Loss statement or a borrower-prepared expense letter/statement for purposes of determining income or expenses.

- With respect to any Mortgage Loan underwritten pursuant to a personal bank statement income documentation program either (a) the mortgage file has satisfactory evidence of the existence of a business bank account for the related business or (b) if satisfactory evidence of a business bank account is not provided, the amount of qualifying income for the borrower was determined under the underwriting guidelines applicable to the business bank statement income documentation program.

Ability to Repay (ATR)

The Ability-to-Repay (ATR) Rule is the reasonable and good faith determination that a borrower has the ability to repay the loan. Under the rule, the borrower's income, assets, employment, credit history and monthly expenses must be documented, and certain affordability calculations must be performed during the underwriting process. All closed end mortgages secured by a dwelling, regardless of loan purpose, occupancy or lien position are subject to this section.

Lenders are required to make a reasonable, good-faith determination before a loan is closed so that the borrower has a reasonable ability to repay a loan. The lender must consider the following eight (8) underwriting factors and include proper underwriting documentation that these factors were properly considered:

- Current or reasonable expected income or assets,
- Current employment status,
- Monthly payment on the loan (calculated on the higher of the introductory rate or fully indexed, rate; the maximum payment scheduled during the first five (5) years),
- Monthly payment on any new or existing secondary financing, including any simultaneous loan that the creditor knows or has reason to know, will be made,
- Monthly payment for mortgage-related obligations, such as property taxes and insurance, HOA dues, and ground rent,
- Current debt obligations, alimony, and child support,
- Monthly debt-to-income ratio or residual income, and
- Credit history

NOTE: Underwriter may attest to the borrower meeting the ATR rules or borrower may sign an attestation.

1.1 ELIGIBLE PRODUCTS

1.1.1 Eligible products:

See ALTA Matrix for exact details.
Fixed Rate Terms: 15 & 30 years; 5/6 ARM, 7/6 ARM, 10/6 ARM
Interest Only: Available on 30-year term products.

1.1.2 Qualifying payment

The qualifying payment is based upon the principal and interest payment along with $1/12^{th}$ of the annual real estate taxes, property insurance, any other insurance, and any association dues.

The qualifying payment is based on the amortization term. For interest-only loans this is the remaining term after expiration of the interest-only period.

1.1.3 Interest-Only Restrictions

See ALTA Matrix

1.1.4 Loan Amounts

See ALTA Matrix

1.1.5 Minimum Credit Score

See ALTA Matrix

1.2 AGE OF DOCUMENTS

1.2.1 Credit Review Documentation

The following documents may not be more than 120 days old at closing (the date the Note is signed):

- Income verification/paystubs
- Asset documents/bank statements
- Credit Report
- Title Commitment/Preliminary Report/Binder/O&E

Any credit review documents exceeding these timeframes must be updated.

1.2.2 Appraisal

The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report exceeds 120 days of the Note Date.

1.3 BORROWER ELIGIBILITY

1.3.1 CITIZENSHIP

1.3.1.1 US CITIZEN

Eligible without guideline restrictions.

1.3.1.2 PERMANENT RESIDENT ALIEN

An individual admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. The Green Card (Form I-551) is evidence of employment authorization.

- Acceptable evidence of permanent residency includes the following:
  - Alien Registration Receipt Card I-551 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
  - Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
- Eligible without guideline restrictions.

1.3.1.3 FOREIGN NATIONAL

Not eligible.

1.3.2 NON-OCCUPANT CO-BORROWERS

Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.

- Primary purchase transactions only.
- Standard Doc only for both the occupant and non-occupant borrower(s).
- Occupying borrower(s) must have a DTI ratio of 60% or less. This excludes the income/debts of non- occupant borrower(s).
  - Overall DTI for all borrowers must adhere to requirements per the program matrix.
- The non-occupant borrower must be included on title for the subject property.
- Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower.

1.3.3 FIRST TIME HOMEBUYERS (FTHB)

An individual is to be considered a first time homebuyer (FTHB) who is (1) purchasing the security property; and (2) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first time homebuyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first time homebuyer transactions:

- Primary residence only.
- DTI may not exceed 45%.
- Minimum six (6) months of reserves.
- 12-month rental history, reflecting 0x30, documented per "Housing History" section.
  - First time homebuyers with less than 12-month rental history:
    - DTI may not exceed 43%.
    - LTV may not exceed 80%.

- Any available portion of a 12-month housing history must be paid as agreed.

1.3.4 INELIGIBLE BORROWERS

- Irrevocable Trust
- Land Trust
- Blind Trust
- Persons with Diplomatic Immunity, as defined by US Citizenship and Immigration Services
- Persons from OFAC sanctioned countries and persons sanctioned by OFAC
- Not-For-Profit entity
- Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

1.4 TITLE VESTING AND OWNERSHIP

1.4.1 VESTING FOR CONSUMER AND BUSINESS PURPOSE LOANS

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see LEASEHOLD PROPERTIES below.

Eligible forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter vivos revocable trusts
- Illinois land trusts

Ineligible forms of vesting are:

- Land trusts
- Blind trusts
- Irrevocable trusts
- IRAs
- Not-For-Profit entity

1.4.2 INTER VIVOS REVOCABLE TRUST

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae® requirements should be followed to the extent this section is silent.

An inter vivos revocable trust is a trust that:

- an individual creates during their lifetime;
- becomes effective during its creator's lifetime; and
- can be changed or canceled by its creator at any time, for any reason, during that individual's lifetime

Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors/trustees.

Trust and Trustee Requirements:

The trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee must include either

- the individual establishing the trust (or at least one of the individuals, if two (2) or more); or
- an institutional trustee that customarily performs trust functions in, and is authorized to act as trustee under the laws of, the applicable state.

The trustee must 1) have the power to hold the title and 2) mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or note. One or more of the trustees establishing the trust must use personal income and/or assets to qualify for the mortgage.

Documentation Requirements:

- Trust documents are to be obtained as follows:
  - Fully executed and notarized Certificate of Trust
    - Or as applicable under state law
  - If the trust was created under the laws of Louisiana:
    - Trust Extract
  - If allowed by state law, alternative trust documentation may be acceptable
- Trust documents are to verify the following:
  - Trust is revocable
  - Borrower is the trustee and settler of the trust
  - Borrower is the primary beneficiary of the trust, when disclosed
  - Trustee is:
    - Duly qualified under applicable law to serve as trustee
    - Fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets

1.4.3 VESTING FOR BUSINESS PURPOSE LOANS (INVESTMENT OCCUPANCY)

A Business Purpose Loan where the borrower is an entity is limited to the following structures: Limited Liability Company (LLC), Partnership, and Corporation.

The following requirements apply to all loans vested in an entity:

- Loans vested in an entity are eligible under the following programs: Prime Ascent, Investor Solutions, Closed End Second
- Purpose and activities are limited to ownership and management of real property for the vesting entity.
- Multi-level entity structures are allowed subject to entity documentation requirements met for all entities.
- Entity must be domiciled in a U.S. State.
- Entity is limited to a maximum of four (4) member(s) or manager(s).
- Personal guaranties must be provided by member(s)/manager(s) representing at least 25% cumulative ownership of the entity.
- A guarantor must have authority to execute loan documents on behalf of the entity.
- Each Entity member (applicant) providing a Personal Guaranty (full recourse) must complete a FNMA Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of

individual(s) providing a personal guaranty needs to be reflected on the FNMA Form 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

- No Originator shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.

1.4.3.1 GUARANTOR(S) DOCUMENTATION

- Loan Application (e.g., FNMA Form 1003 or other application)
  - Completed for each guarantor
  - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the LLC name
    - Signed as an individual
- Credit report from all guarantors completing an application, see "Credit Reports"
- Disclosure Documents
  - Business purpose loan disclosures as applicable (e.g., GFE, TIL, LE, CD, ECOA)
  - Any state or federally required settlement statement as applicable
- Legal Documents
  - Note, Deed of Trust/Mortgage, and all applicable Riders must be executed by the guarantor in their capacity as authorized signer for the entity.
  - Personal Guaranty
    - The guaranty must be full recourse
    - The guaranty must reference the Note and loan amount
    - Members/managers on the application must sign the guaranty as an individual.
    - Personal guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent.

1.4.3.2 ENTITY DOCUMENTATION REQUIREMENTS

Limited Liability Company (LLC)

- Entity articles of organization or partnership (or equivalent)
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing not required for new entity (i.e., formed within 120 days of the Note date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificate of Good Standing or screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note date
- Entity documents authorizing the guarantor to execute loan documents on behalf of the entity (e.g., Operating Agreement, Certificate of Authorization)
  - If not available, a Borrowing Certificate is required
- Entity documents that include a list of members/managers and ownership percentage (e.g., organization structure)
- EIN/Tax Identification Number
  - Single member LLC may use EIN or the guarantor social security number
  - Multi-member LLCs require an EIN

Corporation

- Filed Certificate/Articles of Incorporation and all amendments (or equivalent)
- By-Laws and all amendments
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing not required for new entity (i.e., formed within 120 days of the Note date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificate of Good Standing or Screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note date
- EIN/Tax Identification Number
- Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation

Partnership

- Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
- Partnership Agreement and all amendments
- Evidence of good standing for the state in which the entity was formed
  - Evidence of good standing not required for new entity (i.e., formed within 120 days of the Note date)
  - For all other entities, a certificate of good standing is required as follows:
    - Certificate of Good Standing or Screen shot from state website
      - The date the document was pulled must be dated within 120 days of the Note date
- EIN/Tax Identification Number
- Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual(s):
  - Loan Application (FNMA Form 1003)
    - Completed for each member of the Entity providing a guaranty.
    - Section labelled "Title will be held in what Name(s)" should be completed with ***only*** the Entity name.
    - Signed by Individuals
  - Personal Guaranty
    - Completed for each member of the Entity providing a guarantee.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
    - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent.
- Signed by the authorized signer for the entity:
  - Disclosures (e.g., GFE, TIL, LE, CD, ECOA)
  - Any state or federally required settlement statement as applicable
  - Note, Deed of Trust/Mortgage, and all Riders

1.4.4 POWER OF ATTORNEY

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;
- It contains an expiration date;
- It is used to execute only the final loan documents;
- The Borrower who executed the POA signed the initial FNMA Form 1003;
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.

1.5 OCCUPANCY TYPES

Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.

Second Home – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:

- Restricted to one-unit dwellings.
- Must be suitable for year-round occupancy.
- The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.

Investment Property – An investment property is owned but not occupied by the borrower.

1.5.1 BORROWER STATEMENT OF OCCUPANCY

The borrower must acknowledge the intended occupancy of the subject property (“Primary Residence”, “Second Home”, or “Investment”) by completing and signing the appropriate sections of the “Occupancy Certification.”

1.5.2 BORROWER STATEMENT OF BUSINESS PURPOSE

All business purpose transactions require the borrower to acknowledge the loan is a business purpose loan by completing and signing a Borrower Certification of Business Purpose. FundLoans reserves the right to decline any loan that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include, but are not limited to:

- Subject property value significantly exceeds the value of the borrower’s primary residence.
- The borrower is a first time homebuyer and currently living rent free or renting his/her primary residence.
- Subject property could reasonably function as a second home.
- Borrower documents show subject property as current residence.

1.6 TRANSACTION TYPES

1.6.1 ELIGIBLE TRANSACTIONS

1.6.1.1 PURCHASE

Proceeds from the transaction are used to finance the acquisition of the subject property.

- LTV/CLTV is based upon the lesser of the sales price or appraised value.
- Assignment of contract or finder’s fees reflected on the purchase contract are eligible, subject to interested party contribution limits.
- Arm’s Length For-Sale-By-Owner (FSBO) transactions allowed.
    - If Non-Arm’s Length, see Non-Arm’s Length Transactions.
- Ensure the transaction is compliant with the Higher Priced Mortgage Loan appraisal rule. See TILA Higher Priced Mortgage Loans Appraisal Rule (Property Flips) for details.
- The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:

    - The purchase contract cannot be expired.
    - Borrower as the purchaser of the property.
        - Business purpose loans may reflect the Guarantor or Entity name, see Vesting for Business Purpose Loans
    - Seller as the vested owner on title.
    - Correct sales price.
    - Amount of down payment.
    - Closing dates.
    - Concessions and seller contributions.
- Buyer's Real Estate Agent Commission - In response to the NAR Settlement, the following apply:
    - Commission paid by the property buyer: Considered a closing cost.
        - Source of funds must be documented in assets.
        - If borrowed or financed, the monthly payment must be included in the debt-to-income ratio.
    - Commission paid by the property seller:
        - Not considered an interested party contribution if seller agrees to pay according to the negotiated terms of the purchase contract.

1.6.1.2 RATE/TERM REFINANCE

At least one borrower must have ownership interest (vested on title) in the subject property at the time of the initial application.

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
    - Closed-end loan, at least 12-months of seasoning has occurred.
    - HELOC, at least 12-months of seasoning has occurred, and total draws over the past 12-months are less than $2,000.
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12-months from the loan application date.

Other considerations:

- Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.
- If the subject property was acquired greater than six (6) months, as measured from the property acquisition date (Note date) to the subject transaction Note date, the appraised value will be used to determine LTV/CLTV.
- If the subject property was acquired less than or equal to six (6) months, as measured from the property acquisition date (Note date) to the subject transaction Note date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.
- Refinance of a previous loan that provided cash out, as measured from the previous Note date to the new Note date, and is seasoned less than 12-months, will be considered a cash out refinance.
- The transaction must be treated as cash-out when the subject property is encumbered by

one of the following:
- Blanket/Cross-Collateralized loan, or
- Loan that allows for Paid in Kind (PIK) interest

1.6.1.3 CASH-OUT

A refinance that does not meet the definition of a rate/term transaction is considered cash-out. See Loan/LTV Matrices for maximum cash-out amounts and restrictions.

- Cash-Out Seasoning is defined as the length of time the subject property has been owned by the borrower (on title), as measured by the property acquisition date (Note date) to the subject transaction Note date.
  - Minimum borrower seasoning requirement of six (6) months is required.
  - Less than six (6) months seasoning is allowed, the current appraised value may be used, with one of the following documented circumstances:
    - Borrower acquired the subject property through an inheritance, or
    - Subject property was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
- Property Value Determination
  - For properties owned 12-months or longer: LTV/CLTV is based upon the appraised value.
  - For properties owned greater than 6 months but less than 12-months: LTV/CLTV is limited to the lower of the current appraised value or the property's purchase price plus documented improvements.
  - For properties owned less than 6 months, see "Delayed Financing" for eligibility.
- A mortgage secured by a property currently owned free and clear is considered cash-out.
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.
- If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm- Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).
- Loans not eligible for cash-out:
  - Primary Residence or Second Home properties listed for sale in the past six (6) months.
  - Investment properties listed for sale in the past six (6) months.
    - Cash-out eligible with a minimum three (3) year prepay penalty, per requirements in Prepayment Penalty section.
  - There has been a prior cash-out transaction within the past six (6) months
  - Payoff of a Land Contract/Contract for Deed.
  - Non-Owner Occupied investment property transactions when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.
  - Loans with Power of Attorney.

1.6.1.4 DELAYED FINANCING

- Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application.

- The transaction is considered cash out refinance for pricing and eligibility.
- The original purchase transaction was an arms-length transaction.
- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

1.6.2 LISTING SEASONING

Primary/Second Home:

- For all refinances, value will be based on lesser of lowest list price in prior 12 months or appraised value.
- For cashout refinances, properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.

Investment Properties:

- For all refinances, value will be based on lesser of lowest list price in prior 12 months or appraised value.
- For cashout refinances, a listing expiration of less than six (6) months is permitted with a minimum prepayment penalty of three (3) years, see "Prepayment Penalty" section. If a property is listed for sale, the listing must be cancelled prior to the note date.

1.6.3 NON-ARM'S LENGTH TRANSACTIONS

1.6.3.1 NON-ARM'S LENGTH TRANSACTION

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales, and flip transactions.

When the property seller is a corporation, partnership, or any other business entity, it must be ensured that the borrower is not an owner of the business entity selling the property.

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required, as well as the payment history pattern (verification of the Seller's mortgage [VOM]).

1.6.3.2 NON-ARM'S LENGTH TRANSACTION RESTRICTIONS

- 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.
    - Must provide a 12- month mortgage history on the existing mortgage securing

the subject property, confirming the Family Sale is not a foreclosure bailout.

- Borrower to provide verification of earnest money deposit.
- Maximum LTV/CLTV of 80%.
- Employer to employee sales or transfers are not allowed (e.g., newly constructed properties).
- Property trades between buyer and Seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment or monthly PITIA reserves.

1.6.4 INTERESTED PARTY CONTRIBUTIONS (SELLER CONCESSIONS)

Primary and Second Home

- Maximum contribution:
    - 6% for LTVs > 75%
    - 9% for LTV ≤ 75%

Investment

- May not exceed 6%

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state, and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. A borrower participating in the transaction (i.e., borrower acting as their own agent) may contribute funds (i.e., commission) up to the maximum contribution limits referenced above.

Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

1.6.5 ESCROWS – IMPOUND ACCOUNTS

Escrow accounts must be established for property taxes, hazard insurance, and flood insurance (if applicable).

1.6.6 SECONDARY FINANCING

Secondary financing not allowed

1.6.7 PREPAYMENT PENALTY

[Investment Property Only]

A prepayment penalty on a mortgage loan is a fee that a lender may charge if the borrower pays off the loan early, either by refinancing, selling the home, or making extra payments that exceed a specified limit. Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note.

The following prepayment structures must be used:

- Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance.

The following state restrictions apply:

- Prepayment penalties are not allowed in AK, KS, MI, MN, NM, and RI.
- Prepayment penalties are not allowed on loans vested to individuals in IL and NJ.
- Pennsylvania – Prepayment penalties are not allowed on loan balances less than an adjusted value as determined by the Dept of Banking & Securities. For calendar year 2025 the base figure amount is $319,777.
- Only declining prepayment penalty structures are allowed in MS.

1.7 CREDIT

1.7.1 CREDIT REPORTS

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

1.7.2 GAP CREDIT/UNDISCLOSED DEBT

A gap credit report or Undisclosed Debt Monitoring (UDM) report is required no more than 30-days prior to loan closing or any time after closing.

- Any new tradeline with a balance must be included in determining the DTI ratio.

1.7.3 FRAUD REPORT AND OFAC SEARCH

1.7.3.1 FRAUD REPORT

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. Fraud report is required from an automated fraud and data check vendor solution.

Requirements:

- Transaction participants must be included in the fraud report as follows: Borrowers/Guarantors, Property Sellers.
    - Only member(s)/manager(s) of an entity providing a guaranty are required to be included in the fraud report.
- In industry recognized fraud and data vendor must be used (i.e., Fraud Guard, CoreLogic, DataVerify, TransUnion TLOxp, LexisNexis: SmartLinx, Instant ID, or other industry recognized fraud and data vendor)
- A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared by Underwriting.
    - Underwriters may clear “high” alerts or “red flags” directly through the vendor solution or with a signed attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. FundLoans may request additional documentation to address high fraud risk.
- Fraud reports for loans secured by multiple properties (Cross Collateral) do not need to reference every property, all other requirements apply.
- Fraud reports must include the following exclusionary lists:

- HUD’s Limited Denial Participation (LDP)
- HUD’s General Services Administration (GSA)
- Federal Housing Finance Agency (FHFA) Suspended Counterparty Program
- Freddie Mac Exclusionary List

1.7.3.2 OFAC SEARCH

The Office of Foreign Assets Control (OFAC) of the US Department of Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against individuals and foreign countries. A clear OFAC search for individuals and foreign countries is required.

INDIVIDUALS

Individuals identified on OFAC’s SDN list are not eligible. All individuals involved in the transaction must be screened through exclusionary lists and must be cleared through OFAC's SDN list, regardless of citizenship status.

Requirements:

- A search of Specially Designated Nationals & Blocked Persons list must be completed via the US Department of Treasury: http://sanctionssearch.ofac.treas.gov.
- Individuals to be included in the OFAC search: Borrowers/Guarantors, Property Sellers.
- When the borrower is an entity, Guarantor(s) and all member(s)/manager(s) of the entity must be included in the OFAC search.

FOREIGN COUNTRIES

Borrower(s)/Guarantor(s) from OFAC sanctioned countries are not eligible. The Borrower(s)/Guarantor(s) are defined as individuals signing the loan application.

Requirements:

- If the borrower is an entity, member(s)/manager(s) who are not Guarantors do not have to be screened against the OFAC sanctioned country list.

1.7.4 CREDIT INQUIRIES

Credit inquiries listed on the report within 90 days of the report date must be addressed by the borrower with a letter of explanation. If no credit was extended, borrower must state the purpose of the inquiry. If new credit was extended, borrowers must provide documentation on the current balance and payment. New payment terms are to be included in the DTI ratio.

1.7.5 HOUSING HISTORY

- Housing payment history is required for all Real Estate Owned (REO) evidencing the payment activity for the most recent 12-months.
- For refinances, most recent 12-month housing payment history is required for all mortgages secured against the subject property.
- All payment history will be used for program eligibility, see applicable program matrix for housing history requirements.
- Housing payments must be paid current as of 45 days of the loan application date
- Any REO listed on the application owned free & clear requires a Property Profile Report or similar document

    - Property taxes, all insurance, and homeowner's association dues (if applicable) are to be verified and included in DTI
- Borrower(s) who sold a primary residence within the past six (6) months, currently residing rent-free, and purchasing a new primary residence are allowed. 12-month mortgage history is required on previous primary residence.
- Less than 12-month history with the following restrictions:
    - DTI may not exceed 43%.
    - LTV may not exceed 80%.
    - Any available portion of a 12-month housing history must be paid as agreed.
- Borrowers who are currently renting a residence, a most recent 12-month rental history is required reflecting paid as agreed. Rent-free is NOT allowed.
- If income is being used from a non-subject REO, a housing history is required.
    - Applies to properties vested to an individual or entity.
    - Mortgage liability must be factored in to the net rental income used for qualification.

1.7.5.1 MORTGAGE VERIFICATION

Underwriting must review mortgage history documentation to determine the payment status of all mortgage accounts. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

1.7.5.1.1 MORTGAGE(S) REPORTING ON CREDIT REPORT

If a complete 12-month mortgage history is not reported on the credit report, Underwriting must use one of the following to complete the borrower's payment history:

- Credit supplement; or
- Verification of Mortgage form (VOM) completed by the creditor/servicer; or
- Loan payment history from the creditor/servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

1.7.5.1.2 MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

Underwriting must review documentation for the previous 12-months to determine the payment status of all mortgage accounts not reporting on the credit report.

12-months mortgage payment history is to be documented, as follows:

- Mortgage statement or Note for the review period to verify monthly payment amount, **and**
- Proof of payments through one of the following:
    - 12-months cancelled checks, ACH payment, bank transfer/wire, or electronic payment method from the borrower
        - Payments made in cash are not eligible, **or**
    - 12-months mortgage statements for the review period, **or**
    - 12-months loan payment history from the creditor/servicer
        - Proof of borrower's payment for the most recent 6-months is required, **or**
    - 12-months Verification of Mortgage form (VOM) completed by the creditor/servicer
        - Proof of borrower's payment for the most recent 6-months is required
    - Credit supplement
        - Proof of borrower's payment for the most recent 6-months is required

If subject transaction is a refinance, mortgage payoff statement is required from the creditor/servicer:

- Payoff statement that reflects late fees, deferred balance, or delinquent interest greater than 30 days are subject to housing history and/or credit event criteria. Transaction is to be considered cashout.

1.7.5.2 BALLOON NOTES WITH MATURITY DEFAULT

- Notes with a balloon feature with an expired maturity date exceeding 30 days require an extension to avoid being counted as delinquent (e.g., delinquent 31 days is 1x30 late, delinquent 61 days is 1x60 late, etc).

1.7.5.3 RENTAL VERIFICATION

A 12-month rental history is required for all FundLoans programs when the borrower is renting their current primary residence. The following documents are required:

- A verification of rent (VOR):
    - A third-party VOR is required for any file when the borrower is currently renting.
    - Any VOR completed by a private party, or any non-institutional landlord must be supported by alternative documentation showing the most recent 6-month history (cancelled checks, rental statements including payment history, etc.).

1.7.5.4 DEPARTURE RESIDENCE

- If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:
    - The executed sales contract for the current residence, and
    - Confirmation that any financing contingencies have been cleared.
- If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be offset using 75% of the lower of actual or market rent. The rental income must be documented with all the following:
    - Market Rent Analysis, Single Family Comparable Rent Schedule (FNMA Form 1007).
    - Copy of a current lease.
    - Evidence of proof of receipt of damage deposit and first month's rent.

1.7.6 CONSUMER CREDIT

1.7.6.1 INSTALLMENT DEBT

Installment debt is a monthly obligation with fixed payments and terms. Payments on installments must be included in the borrower's debt-to-income (DTI) ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment.

Installment debt paid in full or prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

1.7.6.2 LEASE PAYMENTS

Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation. This is regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

1.7.6.3 STUDENT LOANS

If a monthly student loan payment is provided on the credit report, Underwriting may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, Underwriting may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, Underwriting must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the Underwriting may calculate:

- a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.

1.7.6.4 DEFERRED INSTALLMENT DEBT

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, Underwriting must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

1.7.6.5 REVOLVING DEBT

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the DTI ratio calculation. Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a minimum payment amount, Underwriting must use 5% of the outstanding balance to be included in the DTI ratio calculation.

Any non-mortgage account can be no more than 30 days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

1.7.6.6 AUTHORIZED USER ACCOUNTS

Authorized user accounts can be excluded from the debt-to-income ratio.

1.7.6.7 OPEN 30-DAY CHARGE ACCOUNTS

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, Underwriting must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

1.7.6.8 SOLAR PANELS

Installment debt from financed or leased payments associated with solar panels are to be included in the debt-to-income ratio.

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements

Property with solar panels are eligible for purchase. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Underwriters are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, Underwriters may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. Underwriting must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless Underwriting obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Underwriting is responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report.

1.7.6.8.1 REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE OWNED

Solar panels purchased through financing may or may not include the real estate as collateral.

<u>Financed and collateralized (UCC on title)</u>

The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records (on title report).

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing*.

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the debt-to-income ratio
- Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements)
- Include the solar panels financing balance in the LTV/CLTV ratio calculation (if unable to obtain, utilize original balance). The UCC fixture filing* must be subordinated with one of the following:
  - Subordination Agreement
  - UCC Termination
    - Debt obligation is to be included in debt-to-income ratio and LTV/CLTV unless proof is provided verifying the debt has been paid down to zero (UCC termination does not automatically verify the debt is paid off).
- CLTA Endorsement 150-06 is not eligible to be used in lieu of a Subordination agreement or UCC Termination.

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

<u>Financed and collateralized (UCC not on title)</u>
The solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report.

Note: A Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing.

- Obtain and review the credit report, title report, appraisal, related promissory note and related security agreement that reflect the terms of the secured loan
  - Include the debt obligation in the debt-to-income ratio
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt
- Do not include the panels in the LTV/CLTV ratio calculation
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence

must be provided that the UCC was paid in full otherwise the financed balance must be included in LTV/CLTV

PACE (Property Assessed Clean Energy)

PACE allows homeowners to finance energy improvements through an assessment in their annual property tax bills.

- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.
  - o PACE loans, in some cases, are also referred to as HERO loans.
  - o Any property tax statement that reflects PACE, HERO, or equivalent will require proof of payoff.
    - ▪ If loan proceeds are used to pay off the PACE loan, transaction will be considered cash out.

1.7.6.8.1 REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE LEASED OR COVERED BY A POWER PURCHASE AGREEMENT

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

- Underwriting must obtain and review copies of the lease or power purchase agreement.
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
  - o Provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - o Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The value of the solar panels cannot be included in the appraised value of the property.
- The value of the solar panels must not be included in the LTV/CLTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.
  - o A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
  - o When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.
- The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The lease or power purchase agreement must indicate that:
  - o Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with

the home);

- o The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, Underwriting may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
- o In the event of foreclosure, the seller or assignee has the discretion to:
  - ▪ Terminate the lease/agreement and require the third-party owner to remove the equipment;
  - ▪ Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
  - ▪ Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

1.7.6.9 TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

1.7.6.10 BUSINESS DEBT

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, Underwriting must confirm that it verified that the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks, ACH payment, or transferred draw against the business account
- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

1.7.6.11 CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS (DEBT PAID BY OTHERS)

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:

- Car loan
- Student loan
- Mortgage
- Any other obligation

If Underwriting obtains proof that the borrower is not the party who is repaying the debt, Underwriting may exclude the debt. In order to exclude debts from the borrower's DTI ratio, Underwriting must obtain the most recent 12-months canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

1.7.6.12 COURT-ORDERED ASSIGNMENT OF DEBT

When a borrower has outstanding debt what was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a continent liability. Underwriting is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.

Underwriting is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. Underwriting cannot disregard the borrower's payment history for the debt before its assignment.

1.7.6.13 LOANS SECURED BY FINANCIAL ASSETS

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.

Underwriting is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided Underwriting obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, Underwriting must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Payment on any debt secured by virtual currency is an exception to the above policy and must be included when calculating the debt-to-income ratio.

1.7.6.14 CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

Delinquent credit, such as charge-offs of non-mortgage accounts and collections, have the potential to affect loan position or diminish borrower equity.

- Individual collection and non-mortgage charge-off accounts equal to or greater than $250, and accounts that total more than $2,000, must be paid in full prior to or at closing. See below for exceptions:
  - Medical collections may remain open.
  - A second mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination, based on the charge-off date.
  - Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded from the DTI calculation. Evidence of expiration must be documented.

Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following:

- Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If the payment amount is not known, 5% of the balance may be used as the payment.
- Reserves are sufficient to cover balance of the charge-offs or collections and meet reserve requirements.

1.7.6.15 CONSUMER CREDIT COUNSELING SERVICES

Borrower enrollment in Consumer Credit Counseling Services (CCCS) is allowed when a minimum of 12-months have elapsed on the plan, and evidence of timely payments for the most recent 12-months is provided. The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan. A monthly CCCS plan payment must be included in the DTI calculation.

1.7.6.16 JUDGMENT OR LIENS

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

1.7.6.17 INCOME TAX LIENS

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments have been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
- The maximum payment required under the plan is included in the DTI calculation.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.
- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

1.7.6.18 DISPUTED TRADELINES

- Revolving account: See Revolving Debt section
- Installment account: See Installment Debt
- Mortgage account: Housing history restrictions apply, see Housing History
- Collection/charge-off account: See Consumer Credit Charge-Offs and Collections

1.7.7 BANKRUPTCY HISTORY

Recent bankruptcies are not allowed (must be equal to or greater than 48 months prior). All bankruptcies must be settled a minimum of twelve (12) months. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the Note date.

1.7.8 FORECLOSURE / DEED-IN-LIEU / SHORT SALE / PREFORECLOSURE / MORTGAGE CHARGE-OFF

Must be equal to or greater than 48 months in age. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in a bankruptcy, the seasoning timeline will start from the earlier of the date of discharge of bankruptcy and the foreclosure completion date.

The following events are considered the same as a foreclosure for loan eligibility:

- Deed-In-Lieu of foreclosure: Transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as “Forfeit deed- in-lieu of foreclosure.”

- Short Sale or Preforeclosure Sale: Sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as “Settled for less than full balance.”
- Charge-off of a Mortgage Account: Occurs when a creditor has determined that there is minimal likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and may be identified on the credit report with a manner of payment (MOP) code of “9.”

1.7.9 NOTICE OF DEFAULT

Notice of Default will be considered a 1x90x12 under housing history restrictions.

- Must be equal to or greater than 48 months in age.

1.7.10 FORBEARANCE, MODIFICATION, OR DEFERRALS

Forbearances, modifications, and deferrals must be equal to or greater than 48 months old.

1.7.11 CREDIT SCORE

All borrowers must meet the minimum program credit score requirement. Loan eligibility is based upon the representative credit score, also referred to as the decision credit score. A valid decision credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. To determine a borrower(s) credit score, use the lower of two (2) or middle of three (3) credit scores.

For a loan file with one borrower, that borrower’s score is the decision credit score. For loan files with multiple borrowers:

- Standard and Alt Documentation: The borrower with the higher monthly income is considered the primary borrower and their credit score can be used as the decision credit score.
    - If the borrower and co-borrower are self-employed and jointly own the business being used for income, the highest score amongst the borrowers is used as the decision credit score.
- Asset Utilization: Use the lowest score amongst all borrowers who will be on the loan as the decision credit score.

1.7.12 TRADELINES

1.7.12.1 STANDARD TRADELINES

If the primary borrower has three (3) credit scores, the minimum tradeline requirement is waived. For loans when the primary borrower has less than three credit scores, each borrower must meet the minimum tradeline requirements, unless the co-borrower is the spouse of the borrower. In that case, only one spouse is required to meet the minimum tradeline requirements outlined below.

The minimum tradeline requirements are as follows:

- At least three (3) tradelines reporting for a minimum of 12-months, with activity in the last 12-months, or
- At least two (2) tradelines reporting for a minimum of 24-months, with activity in the last 12-months.

Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the requirements below:

- No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history.

- At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months.
- The borrower has an established credit history of at least eight (8) years.
- Tradelines with recent serious adverse history are not acceptable.
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred.

The following are not acceptable to be counted as tradelines:

- "Non-traditional" credit as defined by FNMA
- Self-reported tradeline
- Any liabilities in deferment status
- Accounts discharged through bankruptcy
- Authorized user accounts
- Charge-offs
- Collection accounts
- Foreclosures
- Deed-in-lieu of foreclosure
- Short sales
- Pre-foreclosure sales

1.7.13 OBLIGATIONS NOT APPEARING ON CREDIT REPORT

1.7.13.1 HOUSING AND MORTGAGE-RELATED OBLIGATIONS

Housing and mortgage-related obligations include property taxes, insurance premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard on the Schedule of Real Estate Owned (REO) section of the FNMA Form 1003 loan application. These obligations must be verified (subject to the program criteria) using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, or information obtained from a valid and legally executed contract.

1.7.13.2 CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

Underwriting may use a credit report to verify a borrower's current debt obligations, unless Underwriting has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae guidelines.

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement - and those payments must continue to be made for more than 10 months - the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. For alimony obligations, Underwriting has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If Underwriting exercises this option, a copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

1.8 ASSETS

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

1.8.1 ASSET REQUIREMENTS

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is a single account statement covering a one (1) month period and dated within 120 days of the loan note date. Large deposits must be sourced as follows:

- If personal accounts are used for assets, large deposits defined as any single deposit that represents greater than 100% of the borrower's qualifying monthly income are to be documented for a purchase transaction.
- If business accounts are used for assets, the following applies:
  - Business account used for income: Large deposits greater than 100% of monthly business revenue must be documented for a purchase transaction.
  - Business account not used for income: Large deposits do not need to be sourced.

1.8.2 ASSET DOCUMENTATION

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts)
  - Statements must include the following:
    - Name of financial institution
    - Reflect borrower as the account holder (Funds held jointly with another individual are considered 100% of the borrower's funds)
    - Account number
    - Statement date
    - Time period covered by the statement
    - Available balance in U.S. dollar denomination
  - Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
- Assets held in in a Trust require the following:
  - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
  - Document the conditions under which the borrower has access to the funds
- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (FNMA Form 1006).
- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts. When qualifying the borrower, monthly payments on loans secured by non-financial assets must be included in the debt-to- income calculation. When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt. See Loans Secured by Financial Assets for complete details.
- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets. For downpayment and closing costs, if funds haven't been liquidated, confirm the borrower can access/withdraw funds. For reserves, terms of withdrawal are not required.
- Business accounts may be considered for assets.
  - Consumer Purpose Loans: The amount of business assets that may be utilized is

limited to the borrower's ownership percentage in the business.

- Business Purpose Loans:
  - Assets held in the name of the vested entity: 100% of the assets may be used.
  - Assets not held in the name of the vested entity: The amount of business assets that may be utilized is limited to the borrower's ownership percentage in the business.

- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.
- Non-regulated Financial Assets
  - Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion.
    - Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
    - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts.
- Cash-on-hand.
- Sweat equity.
- Gift or Grant funds which must be repaid.
- Down payment assistance programs.
- Unsecured loans or cash advances.
- 529 Savings Plan.
- Funds contributed by a non-borrowing spouse unless documented as a gift. See Gift Funds.

1.8.3 RESERVES

- FundLoans loan program requires minimum reserves as outlined on the FundLoans Loan\LTV matrices.
- Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.
- For Adjustable-Rate Mortgages (ARM), the reserves are based upon the initial PITIA, not the qualifying payment.
- Cash-out proceeds may not be used to meet reserve requirements.
- Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.
- Gift funds may not be used to meet reserve requirements.

1.8.4 GIFT FUNDS

Unless otherwise specified, Gift Funds are acceptable if one of the following applies:

- For primary residence and second home occupancy, gift funds permitted after 20% contribution towards down payment, closing costs, prepaids, and reserves from borrower(s) own funds.
- For Investment properties, no gift funds are allowed.

1.8.4.1 ELIGIBLE DONORS AND DOCUMENTATION

A gift can be provided by:

- A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or

- A fiancé, fiancée, or domestic partner.
- For any gift provided by a non-US citizen, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

1.8.4.1.1 DOCUMENTATION REQUIREMENTS

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12-months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

1.8.4.1.2 VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

Underwriting must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, Underwriting must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence. Must meet all other guidelines for Gift Funds.

1.9 INCOME

1.9.1 INCOME ANALYSIS

THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.

1.9.1.1 EMPLOYMENT/INCOME VERIFICATION

- A minimum of two (2) years of employment history for both wage/salary or self-employment, is required to be documented on the loan application (FNMA Form 1003). When the borrower has less than a two- year history of employment, Underwriting should document positive factors to offset the shorter employment history, such as education or training.

- Any gaps in employment that span one or more months must be explained.
- Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.
- Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.
- The following are common business structures:
  - Sole proprietorship
  - Limit Liability Company (LLC)
  - Partnerships
  - S-Corporation
  - Corporation
- If any borrower is no longer employed in the position disclosed on the FNMA Form 1003 at the FundLoans purchase date, FundLoans will not purchase the loan.

1.9.1.2 EARNINGS TRENDS

When 24-months of income are analyzed for qualification, year over year income amounts must be compared using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- Stable or increasing: Defined as annual income that is equal to, greater than, or less than 20% below the prior year's income. The income amounts will be averaged.
- Declining but stable: If the 24-month earnings trend shows a decline in borrower income of 20% or more on a year over year basis, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.

1.9.2 DEBT-TO-INCOME (DTI) RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to FundLoans Program Matrix criteria. The DTI ratio consists of two components:

- The borrower's monthly debt obligations include the monthly mortgage payment for the subject loan, any simultaneous loans secured by the subject property, monthly mortgage-related obligations (property taxes, hazard/flood/other insurance, HOA fees, etc.), and consumer's current debts, alimony and child support obligations.
- The borrower's current monthly documented income used to qualify for the loan.

The qualifying monthly mortgage payment includes the following:

- Fixed rate: Note rate amortized over the total term
  - Interest Only: Note rate amortized over the remaining term after the expiration of the interest only period
- ARMs: Qualifying rate is the higher of the fully indexed rate or note rate
  - Interest Only: Qualifying rate amortized over the remaining term after the expiration of the interest only period

Monthly mortgage-related obligations include real estate taxes, property insurance, any other insurance, and any association dues.

- Calculating Real Estate Tax Payment for subject property:
  - For purchase and construction-related transactions, Underwriting must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements.
    - State of California exception: Use 1.25% of the purchase price to determine the monthly tax payment.
  - For refinance transactions, use the current tax assessment.

1.9.3 RESIDUAL INCOME

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. Residual Income = Gross Monthly Income minus total monthly debt.

The Minimum Residual Income requirements is $2,500 with $250 is added for the first dependent and $125 for each additional dependent. A dependent is any person other than the borrower or spouse in the household.

1.9.4 DOCUMENTATION OPTIONS

Standard (Full Doc) and Alt Doc income documentation options are available. In addition to wage/salary income, Standard documentation includes various other types of income. See "Other Sources of Income" for documentation requirements. Income should be calculated and documented according to FundLoans guidelines. If a specific source of income is not referenced in the FundLoans Guide, the Fannie Mae® guidelines for that income source may be used.

1.9.4.1 IRS FORM 4506-C

A signed IRS Form 4506-C is required in every standard documentation credit file.

1.9.4.2 TAX TRANSCRIPTS

See specific standard income documentation type if transcripts are required.

If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

- A copy of the IRS rejection with a code of "Unable to Process" or "Limitation"
- Proof of identification theft, as evidenced by one (1) of the following:
  - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039).
  - A copy of the notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information.
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's personal tax return (Form 1040). Validation of prior tax year's income (The income for the current year must be in line with prior years.

1.9.4.3 TAXPAYER FIRST ACT

The Taxpayer First Act includes a provision that persons receiving tax return information must obtain the express permission of taxpayers prior to disclosing that tax return information to any other person. "Tax return information" is defined under the IRS Code, 26 U.S.C. § 6103.

Therefore, if Underwriting or servicer obtains tax return information during the origination or servicing of a mortgage loan, Underwriting or servicer must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as FundLoans or any other loan participant.

To ensure compliance with the law, a Taxpayer Consent Form must be included in all loan files that include tax returns.

1.9.5 STANDARD (FULL DOC) DOCUMENTATION

The Standard Income Documentation option is available to borrowers who meet the requirements listed below. This documentation option is available to borrowers who have experienced recent credit events and allows for higher LTVs for borrowers with clean payment histories.

1.9.5.1 RESTRICTIONS

- See the FundLoans Matrices for maximum LTV/CLTV and DTI.
- A minimum two (2) year employment history is required.

1.9.5.2 STANDARD INCOME DOCUMENTATION (12- OR 24- MONTHS)

Eligibility and pricing differences exist for the 12- or 24- month documentation options, see Loan/LTV Matrices and rate sheets for details.

1.9.5.2.1 WAGE/SALARY INCOME

- The borrower’s most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or
- Income verification provided by a FNMA approved 3rd party Vendor (e.g., The Work Number®) evidencing income from the most recent 1 or 2 years (as applicable) along with year-to-date earnings.
  - FNMA WVOE Form 1005 is not eligible for standard income documentation unless used in conjunction with documents verifying variable income. See “Overtime/Bonus/Commission.”
- When tax returns are required, as in the case of income earned from subject or non-subject investment property REO, the most recent one (1) or two (2) years of tax returns should be provided. The definition of “most recent” is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

1.9.5.2.2 SELF-EMPLOYMENT INCOME

A minimum two (2) year history of self-employment is required.

- The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower.
  - Evidence of filing may include one of the following:
    - IRS Form 8879 e-File Signature Authorization for the provider that prepared the return,

or

    - E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
    - If evidence of filing is not provided, tax transcripts for personal and corporate (IRS Form 1120) returns are required.
  - In lieu of tax returns, tax transcripts for the most recent one (1) or two (2) years may be provided as applicable. In certain cases, tax returns will be required as transcripts will not provide the details required to establish eligible qualifying income for the borrower.
- If the borrower pays themselves wage income, a YTD paystub must be included in the file.
- When analyzing tax returns, the following may be added back to the applicant's income calculation:
  - Depreciation
  - Depletion
  - Business use of home
  - Amortization/casualty loss
  - Ordinary income (loss) from other partnerships
  - Nonrecurring other (income) loss
  - Any expense(s) that can reasonably be documented to be one-time and non-recurring
  - Net operating loss carryforwards from years prior to the tax returns provided
- If the tax return date exceeds 120 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date. The P&L may be either: prepared by a 3rd party or prepared by the borrower. If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns; the P&L is used to determine the stability of that income.

1.9.5.3 EMPLOYMENT STATUS

In all cases, the borrower's current employment status is required. Employment status can be established as follows:

Wage/salary borrowers:

- A YTD paystub dated within 30 days of Note date; **or**
- A verbal VOE dated no more than 10 calendar days prior to Note date. Underwriting may use any type of verification form. The VOE should include the following data:
  - Borrower name
  - Loan ID number
  - Current position
  - Verification that borrower's employment is currently active
  - Employer name/company name
  - Employer contact name and title
  - Name of individual who completed the VOE
  - Business phone number must be independently verified; **or**
- A verification via e-mail exchange with the borrower's current employer dated no more than 10

calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:

- Work e-mail address of the individual contacted at the employer
- Borrower name
- Current position
- Current employment status

Self-Employed Borrowers:

Existence of the borrower's business is to be verified within 90 days prior to the Note date, through one of the following:

- Third party verification from licensed tax preparer, regulatory agency, or applicable licensing bureau, or
- Internet screenshot displaying the phone listing and address verification of the borrower's business, or
- A business bank statement dated within 90 days of the Note date for income used in qualification

1.9.5.4 OTHER SOURCES OF INCOME

1.9.5.4.1 ALIMONY OR CHILD SUPPORT

Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months. Document the support will continue for at least three (3) years by one of the following:

- Alimony:
  - Copy of final divorce decree or final separation agreement describing the payment terms.
  - Any other type of written legal agreement or court decree describing the payment terms.
- Child support:
  - Copy of final divorce decree or final separation agreement describing the payment terms.
  - Any other type of written legal agreement or court decree describing the payment terms.
  - The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status.

1.9.5.4.2 AUTO ALLOWANCE

The borrower must have received payments for at least two (2) years. Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

1.9.5.4.3 CAPITAL GAINS

Capital Gains income must be averaged over two (2) years and documented with the following:

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.
- Third-party documentation to evidence that additional assets may be sold to support qualifying income.
- Third-party documentation must evidence capital gains income will continue for minimum of three (3) years.
- Capital losses do not have to be considered.

1.9.5.4.4 DISABILITY INCOME – LONG TERM

Generally, long-term disability will not have a defined expiration date and should be expected to continue.

Obtain a copy of the borrower's disability policy or benefits statement to verify the following:

- Eligibility for the benefits,
- Amount and frequency of payments, current proof of receipt, and
- If there is a contractually established termination or modification date.

1.9.5.4.5 EMPLOYED BY A RELATIVE

Income for borrowers who are employed by a relative must be verified using Standard Documentation for two

(2) years, including the following:

- Federal income tax returns for the most recent two (2) years.
- W-2s for the most recent two (2) years.
- Paystub(s) covering the most recent 30-day period.

Clarification of the potential ownership of family-owned businesses by the borrowers may also be required. A borrower may be an officer of a family-operated business, but not an owner. Verification of a borrower's status should be provided by written confirmation obtained from a CPA or legal counsel.

1.9.5.4.6 EMPLOYMENT OFFERS OR CONTRACTS

For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

- The offer or contract cannot be for employment by a family member or interested party to the transaction.

1.9.5.4.7 FOREIGN INCOME

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.

1.9.5.4.8 FOSTER CARE INCOME

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

1.9.5.4.9 HOUSING/PARSONAGE INCOME

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24-months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.
- The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

1.9.5.4.10 INTEREST/DIVIDENDS

Verify the borrower's ownership of the assets on which the interest or dividend income was earned.

Documentation of asset ownership must be in compliance with the “Age of Document Requirements” section.

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower’s total assets before calculating expected future interest or dividend income.

1.9.5.4.11 NON-TAXABLE INCOME

- If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the Underwriting may develop an “adjusted gross income” for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower’s income.
    - Child support income: The full amount of qualifying child support income may be treated as nontaxable and grossed up at 25% without supporting documentation verifying the nontaxable status.
    - Social Security income: Income may be grossed up at 15% without documentation verifying the nontaxable status.

1.9.5.4.12 NOTES RECEIVABLE INCOME

Note receivable income may be used for qualifying income subject to the following:

Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.

- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12-months using either cancelled checks, bank statements, or federal tax returns.
- Payments on a Note executed within the past 12-months, regardless of the duration, may not be used as stable income.

1.9.5.4.13 PENSION, RETIREMENT, ANNUITY

The following provides verification requirements for pension, retirement, and annuity income. Document regular and continued receipt of the income with one of the following:

- Statement from the organization providing the income, or
- Retirement award letter or benefit statement, or
- One (1) month financial or bank account statement evidencing the source/deposit, or
- Signed federal income tax return, or
- IRS W-2 form, or
- IRS 1099 form

In addition to the above, if retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, the provide all of the following:

- Account Statement(s) reflecting available balance for withdrawals evidencing three (3) year continuance, and
- Borrower must have unrestricted access to the accounts without penalty

1.9.5.4.14 RENTAL INCOME

Rental income may be used for qualifying income subject to the following documentation requirements:

- Rental income from other properties must be documented with the borrower’s most recent signed federal income tax return that includes Schedule E. Leases are required for properties where rental income is being used to qualify and the property was acquired during or subsequent to the most recent tax filing year or the rental property was out of service for an extended period. For commercial properties a copy of the lease or rent roll is required

- Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 2 months or the time period after the lease expired
- If using a lease agreement, a 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITIA to arrive at the rental income/loss used for qualifying
- Commercial properties owned on schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial
- Short Term Rental – Purchase Transactions:
  - Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
  - Any of the following methods may be used to determine gross monthly rental income:
    - Short term rental (STR) analysis form or 1007/1025 may be used. The analysis must include the following:
      - Provide the source of the data used to complete the STR analysis.
      - Include comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
      - Include daily rental rate and occupancy percentage.
      - Factor seasonality and vacancy into the analysis.
      - Must be completed by a licensed appraiser.
    - AIRDNA (www.Airdna.co) Rentalizer/Property Earning Potential Report accessed using the Explore Short-Term Rental Data, must meet the following requirements:
      - Only allowed for purchase transaction.
      - Gross rents equal the revenue projection from the Property Earning Potential Report less the 20% extraordinary expense factor.
      - Revenue projection equals the average daily rental rate times the occupancy rate.
      - Forecast period must cover 12-months and dated 90-days within the Note date.
      - Maximum occupancy limited to 2 individual per bedroom.
      - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
      - Market Score or Sub-Market Score must be 60 or greater as reflected on the Property Earning Potential Report.
- Short Term Rental – Refinance Transactions:
  - Rental income must be documented with the borrower's most recent signed federal income tax return that includes Schedule E.
- Application of Rental Income:

- Primary Residence
    - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
- Investment Property
    - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
    - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
    - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
    - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

1.9.5.4.15 RESTRICTED STOCK UNITS

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and are considered ordinal income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion.

Restricted stock options may be used as qualifying income when all the following requirements are met:

- Income has been consistently received for the prior two (2) years and is verified it will continue for three (3) years.
- RSU income is calculated using the past two (2) year average.
- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- Borrowers must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement showing continuance of RSU income.
- Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes any of the following:
    - Tax returns for the last two (2) years, reflecting RSU income.
    - Year-end paystubs reflecting the RSU payout.
    - An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, that includes the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

1.9.5.4.16 ROYALTY INCOME

- Obtain copies of the following:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
  - The borrower's most recently signed federal income tax return, including IRS Form 1040 and Schedule E.
- Confirm that the borrower has received royalty payments for at least 12-months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

1.9.5.4.17 SOCIAL SECURITY

Social Security income for retirement that the borrower is drawing from their own account/work record will not have a defined expiration date and can be expected to continue.

Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided Underwriting documents a 3-year continuance.

Social Security income may be grossed up, see "Non-Taxable Income."

- Borrower is drawing Social Security benefits from own account/work record, provide one of the following:
  - Most recent SSA Award Letter, or
  - Most recent SSA-1099, or
  - Proof of current receipt, or
  - Most recent signed federal income tax return (or tax transcript) if filed by all borrowers on the loan
- Borrower is drawing Social Security benefits from another person's account/work record or from their own account/work record for the benefit of another, provide all of the following:
  - Most recent SSA Award Letter,
  - Proof of current receipt, and
  - Proof of three year continuance
- Survivor Benefits, provide all of the following:
  - Most recent SSA Award Letter,
  - Proof of current receipt, and
  - Proof of three year continuance
- Supplement Social Security Income (SSI), provide all of the following:
  - Most recent SSA Award letter, and
  - Proof of current receipt

1.9.5.4.18 TEACHER INCOME

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

1.9.5.4.19 TIP INCOME

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years.

Documentation will be based upon the documentation type selected (12- or 24- months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time- period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

1.9.5.4.20 TRUST INCOME

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:

- Trust verification documentation must clearly identify the date the trust was created.
- Trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years.
  - Trust verification documentation to include a letter from an accountant or attorney who has reviewed the trust's documentation when one of the following applies:
    - Trustee's statement or other documents are not available, or
- Borrower is trustee
- Variable trust income: Use an average over the length of time per the doc type selected.
  - When variable trust income has been received for less than 24 months, but not less than 12 months, it may be considered as stable income with compensating factors
- Fixed trust income: Use the fixed payment as documented.
- If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements).
- Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

1.9.5.4.21 UNEMPLOYMENT BENEFIT INCOME

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

1.9.5.4.22 VA BENEFITS

Document the borrower's receipt of Veteran Administration (VA) benefits with one of the following:

- Award letter, or
- Distribution form from the VA

Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.)

Education benefits are not acceptable income because they are offset by education expenses.

1.9.5.4.23 VARIABLE – OVERTIME/BONUS/COMMISSION

Variable income sources are eligible provided the borrower has a minimum one (1) or two (2) years history of receiving such income in the same line of work, based on the documentation type. Variable income earned for less than one (1) year may not be used for qualifying income.

Variable income is to be calculated by using an averaging method consistent with the documentation provided. Averaging method must take into account the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

- Most recent year-to-date pay stub reflecting the variable earnings, and
- Most recent W-2 form(s), and
- Documentation verifying break-down of prior year(s) earnings with one of the following:
  - Previous year-end paystub, or
  - Completed Written Verification of Employment – FNMA Form 1005, or
  - FNMA approved 3rd party Vendor (e.g., The Work Number®)

1.9.5.4.24 INELIGIBLE INCOME SOURCES

- Boarder income
- Educational benefits
- Gambling winnings
- Cannabis (see below)
- Mortgage Credit Certificates
- Mortgage Differential Payments
- Refunds of federal, state, or local taxes

Guidelines for income derived from cannabis:

- Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership.

1.9.6 ALT DOC - BANK STATEMENTS

- Income from borrowers who are wage earners in the industry are allowed.

Personal bank statements or business bank statements may be used to document self-employment income. Bank statements held in a foreign bank with U.S. branches insured by the FDIC are acceptable.

1.9.6.1 RESTRICTIONS

1.9.6.1.1 APPLIES TO PERSONAL/BUSINESS BANK STATEMENTS

See the FundLoans Matrices for maximum LTV and DTI.

- Borrowers must be self-employed for at least two (2) years. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history.
- If nature of borrower's business cannot be determined from the URLA, a business narrative may be provided by the borrower.
- The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:
  - CPA Letter, or
  - Business License, or
  - Bank statement from 24 or more months prior to note date reflecting activity, or
  - Other reasonable evidence of business activity.
- Nonprofit Entity not eligible.
- Income and expense documentation must be prepared or validated by an acceptable 3rd party source with knowledge of the borrower's business.
- Funds/Deposits in a IOLTA (Trust) ineligible source.
- Tax returns and 4506-C are not required for the bank statement program.
- Alt Doc income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Alt Doc, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

1.9.6.2 BANK STATEMENT OPTIONS/INCOME ANALYSIS

In addition to the factors described in the “Income Analysis” section of this guide, Underwriting should consider the following:

- Deposits should be reviewed for consistency.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 100% of the average monthly sales of the business.
- Changes in deposit pattern must be explained.
- Income documented separately, but included as deposits in the statement under review, must be backed out of deposits.

1.9.6.2.1 PERSONAL BANK STATEMENT REVIEW

A personal bank account is held in the individual borrower(s) name. The following documentation requirements and analysis methods apply:

Documentation Requirements

- 12- or 24- months of consecutive PERSONAL bank statements, the most recent statement dated within 120- days of the note date.
- Most recent two (2) months of BUSINESS bank statements.
- Verify that the borrower owns 20% of the business by providing one of the following:
  - CPA/EA letter, operating agreement, or equivalent, reflecting the borrower’s ownership percentage.

Calculation Method

- Only transfers or deposits from the business account(s) are eligible deposits. Qualifying income calculated using the sum of the total eligible deposits from the statements reviewed divided by the number of statements. The most recent bank statement must be consistent with the qualifying income.
- If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.
- ATM deposits may be included if a consistent pattern of such deposits is present.
- Two (2) months of business bank statements, which must:
  - Evidence activity to support business operations.
  - Reflect transfers to the personal account.

1.9.6.2.2 BUSINESS AND CO-MINGLED BANK STATEMENT REVIEW

A business bank statement used for ongoing operations of the business must reflect the name of the business as completed on the URLA or loan application.

- Verify that the borrower has ownership of at least 25% of the business by providing one of the following:
  - CPA/EA letter, operating agreement, or equivalent; reflecting the borrower’s ownership percentage.
- Net income from the analysis of the bank statements is multiplied by the borrower’s ownership percentage to determine the borrower’s qualifying income.

A co-mingled bank statement is a personal account used by a borrower for both business and personal use. A separate business account is not required.

- Verify that the borrower has 100% ownership of the business by providing one of the following:
  - CPA/EA letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.
- The borrower must be the sole owner of the business listed on the URLA or loan application.

Borrower and spouse with combined 100% ownership of the account are eligible.

Standard Expense Ratio – 50%:

Documentation Requirements

- A standard 50% expense factor will be applied to the total of eligible deposits.
- 12- or 24- months of consecutive business bank statements, the most recent statement dated within 120 days of the note date.
- If the business operates more efficiently or typically has a materially different expense factor (higher or lower than standard expense factor), then an expense factor from a CPA/EA, or P&L may be used to determine qualifying income.

Income Calculation Method

- Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed.
- Deposits x (.50) x (ownership %) / 24 or 12 = qualifying income
  - Example: $360,000 x .50 = $180,000 x 1.00 = $180,000 / 12 = $15,000

3rd Party Prepared Business Expense Statement Letter

Documentation Requirements

- 12- or 24- months of consecutive business bank statements, the most recent statement dated within 120- days of the note date and;
- Business expense statement letter to include:
  - Name of the business
  - Business expenses as a percentage of the gross annual sales/revenue
  - Prepared or reviewed by a 3rd party with knowledge of the business (e.g., CPA/EA)
  - Signed by the 3rd party preparer/reviewer

Income Calculation Method

- Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 10%), multiplied by ownership percentage, divided by the number of bank statements.
- Deposits x (expense ratio) x (ownership %) / 24 or 12 = qualifying income.
  - Example: $360,000 x .75 = $270,000 x .50 = $135,000 / 12 = $11,250

3rd Party Prepared P&L Statement

Documentation Requirements

- 12- or 24- months of consecutive business bank statements, the most recent statement dated within 120- days of the note date and;
- P&L covering 12- or 24- months (determined by the months of bank statements provided)
  - Prepared or reviewed and acknowledged by a CPA/EA. Documentation is required to evidence the preparer's business.

- Signed by the 3rd party preparer/reviewer

Income Calculation Method

- P&L Sales/Revenue must be supported by the provided bank statements. Total deposits reflected on the bank statements, minus any inconsistent deposits, must be greater than or no more than 20% below the sales/revenue reflected on the P&L. The bank statements and P&L must cover the same time period. If the deposits support the sales, qualifying income is the lower of:
  - The Net Income indicated on the P&L divided by the number of statements (24 or 12), or
  - Total deposits reported on the bank statements, minus any inconsistent deposits, divided by the number of statements (12 or 24).
- When analyzing the P&L Statement, the following may be added back to the applicant's income calculation:
  - Depreciation
  - Depletion
  - Amortization/casualty loss

1.9.6.3 NON-SUFFICIENT FUNDS

Non-sufficient funds (NSF) reflected on the bank statement must be considered. Overdraft protection fees associated with a pre-arranged link to a savings account or line of credit must also be considered unless one of the following conditions exist:

- Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
- Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer, and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
- Occurrences included in the analysis are subject to the following tolerances:
  - An occurrence is defined as any day in which one or more transactions are reversed or declined.
  - If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period.
  - If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable.
- Exception requests for tolerance deviations must include (a) a letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and (b) additional compensating factors outlined by the underwriter supporting the viability of income.
- The underwriter must consider the financial strength of a self-employed borrower's business.

1.9.7 ALT DOC – RENTAL INCOME

Rental income may be included in loan qualification for Alt Doc income types, to be considered the following documentation must be provided:

Long Term Rental

- A copy of the lease(s) for the rental property.
- Must provide two (2) months of proof of the receipt of rental income. The deposits must be to a separate bank account. Any deposits in the business bank statements used in the business income analysis are not eligible.
    - 75% of the verified monthly rental income can be used to offset the PITIA of the rental property.If the deposits cannot be validated in a separate account, the full PITIA of the rental unit must be included in the qualifying DTI ratio.
- If the transaction type is a purchase of an investment property, and income from the subject property is considered in the underwriting, proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease.

Short Term Rental – Purchase Transactions

- Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
- Any of the following methods may be used to determine gross monthly rental income:
    - Short term rental (STR) analysis form or 1007/1025 may be used. The analysis must include the following:
        - Provide the source of the data used to complete the STR analysis.
        - Include comparable STR properties, focusing on room count, gross living area (GLA), location, and market appeal.
        - Include daily rental rate and occupancy percentage.
        - Factor seasonality and vacancy into the analysis.
        - Must be completed by a licensed appraiser.
    - AIRDNA (www.Airdna.co) Rentalizer/Property Earning Potential Report accessed using the Explore Short-Term Rental Data, must meet the following requirements:
        - Only allowed for purchase transaction.
        - Gross rents equal the revenue projection from the Property Earning Potential Report less the 20% extraordinary expense factor.
        - Revenue projection equals the average daily rental rate times the occupancy rate.
        - Forecast period must cover 12-months and dated 90-days within the Note date.
        - Maximum occupancy limited to 2 individual per bedroom.
        - Must have three (3) comparable properties similar in size, room count, amenities, availability, and occupancy.
        - Market score or Sub-Market Score must be 60 or greater as reflected on the Property Earning Potential Report.

Short Term Rental – Refinance Transactions

- Property leased on a short-term basis utilizing an on-line service such as Airbnb gross monthly rents can be determined by using a 12-month look back period to account for seasonality.
- Rents for the look back period must be documented with either 12-monthly statements or an

annual statement provided by the on-line service. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties owned, statements from an online service must be provided to associate rents received with the specific property.

- 80% of the verified monthly rental income can be used to offset the PITIA of the rental property.

Application of Rental Income

- Primary Residence:
  - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
  - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
- Investment Property:
  - If the aggregate monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
  - If the aggregate monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
  - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
  - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

1.9.8 ALT DOC - ASSET UTILIZATION

Asset Utilization may be used as the sole source of income for loan qualification or to supplement other income sources. When used to supplement other income sources, the minimum asset requirements under the qualification method is waived.

1.9.8.1 RESTRICTIONS

- See FundLoans Matrices for max LTV
- See FundLoans Matrices for max DTI
- Assets from non-occupant co-borrowers not allowed

1.9.8.2 ASSET UTILIZATION QUALIFYING METHOD

Debt Ratio Calculation: Minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84.

1.9.8.3 ASSET UTILIZATION INCOME DOCUMENTATION

Required documentation consists of the following:

- All individuals listed on the asset account(s) must be on the Note and Mortgage.
- Assets considered for this program must be verified with most recent three (3) months account statements, quarterly statement, or a VOD.
- Assets must be seasoned 90 days.

1.9.8.4 ASSETS ELIGIBLE FOR DEPLETION

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:

- 100% of Checking, Savings, Money Market Accounts, and US Treasuries with maturity < 1-year.
- 100% of the cash surrender value of life insurance less any loans may be considered for assets.
- 70% of Stocks, Bonds, and Mutual Funds.
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½).
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.
- Trust Assets:
    - Apply appropriate percentages for the assets held as noted above.
    - Trustee statement or trust agreement must be provided verifying terms of the trust for the following:
        - Assets held in a revocable trust where the trustee to the trust is the borrower.
        - Assets in an irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust.

1.9.8.5 ASSETS INELIGIBLE FOR DEPLETION

- Equity in Real Estate;
- Privately traded or restricted/non-vested stocks;
- Any asset which produces income already included in the income calculation:
- Any assets held in the name of a business;
- Assets held in an irrevocable trust where the beneficiary of the trust is not the borrower;
- Assets held in a charitable giving trust, donor advised fund, or similar entity where the intended beneficiary is not the borrower.

2.1 PROPERTY ELIGIBILITY

2.1.1 APPRAISALS

2.1.1.1 APPRAISAL REQUIREMENTS 1-4 UNIT RESIDENTIAL

FundLoans reserves the right to review all valuation reports and determine if the subject property value is supported.

Appraisers must meet all industry standards and be State Certified. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae® guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. FundLoans reserves the right to restrict the use of any specific appraiser and/or appraisal management company at its discretion.

Underwriting is responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. Underwriting needs to determine that the subject property provides acceptable collateral for the loan.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report – Fannie Mae®/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report – Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report – Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule – Fannie Mae®/Freddie Mac Forms 1007/1000

Originators must order appraisals through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR).

2.1.1.1.1 APPRAISER LICENSE AND CERTIFICATION

The appraisal report forms identify the appraiser as the individual who:

- Performed the analysis, and
- Prepared and signed the original report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee.

<u>Supervisory Appraiser</u>

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that they:

- Directly supervised the appraiser that prepared the appraisal report, and
- Reviewed the appraisal report, and
- Agree with the statements and conclusions of the appraiser, and
- Agreed to be bound by the certifications as set form in the appraisal report forms, and
- Take full responsibility for the appraisal report.

When an appraisal is completed by a trainee, a supervisory appraiser with a certified level license is required to sign the report.

<u>Appraisal Trainee</u>

A trainee may perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so) and must sign the left side of the appraisal certification as the Appraiser if:

- They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor, and
- The right side of the appraiser certification is signed by that supervisory appraiser, and
- It is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term Trainee should be entered in the Other field in the Appraiser Certification section.

2.1.1.1.2 APPRAISAL AGE

The appraisal should be dated no more than 365 days prior to the Note date.

When an appraisal report will be more than 120 days old on the date of the Note, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and the results of the analysis must be reported on the Appraisal Update and/or Completion Report (FNMA Form 1004D).

- If the appraiser indicates on FNMA Form 1004D that the property value has declined, then Underwriting must obtain a new appraisal for the property.
- If the appraiser indicates on FNMA Form 1004D that the property value has *not* declined, then the Underwriting may proceed with the loan in process without requiring any additional fieldwork.

Not eligible for FundLoans purchase: Properties for which the appraisal indicates condition ratings of C5 or C6, or a quality rating of Q6, as determined under the Uniform Appraisal Dataset (UAD) guidelines. FundLoans will consider purchase if the issue has been corrected prior to loan funding and with proper documentation.

2.1.1.1.3 SECOND APPRAISAL

A second appraisal is required. The transaction's "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal.

2.1.1.1.4 APPRAISAL EVALUATION

The sales comparison approach must be used as the final appraised value.

Subject Analysis

- Loans Vesting in an Entity: Borrower name disclosed on the appraisal report may reflect the individual member(s) of the entity or the entity name.

Neighborhood Analysis

- Neighborhood boundaries should be described using four (4) cardinal directions, streets, waterways, other geographic features, and natural boundaries that define separation of one neighborhood from another.
- Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.
- Factors that affect value and marketability should be mentioned in as much detail as possible – e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

Existing Construction

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.
- When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or

plumbing fixtures. In such cases, Underwriting must obtain a certificate of completion from the appraiser before the mortgage is delivered to FundLoans.

- Permanent and Functioning Heat Source – A permanent heat source is required except for properties located in geographic areas where it is typical not to have heat source and has no adverse effect on marketability.

Subject Section

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12-months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s).
- Offering date(s).
- Data source(s) used. For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

Actual and Effective Ages

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or might have a specific physical problem. In such cases, Underwriting should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

Accessory Dwelling Units (ADU)

An Accessory Dwelling Unit (ADU) is an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. Examples of an ADU include, but are not limited to, a living area over the garage, a walk-out basement, or a small addition to the primary dwelling. FundLoans will purchase a one-unit property with up to two ADUs.

Accessory Dwelling Unit (ADU) Requirements:

- ADU square footage must be smaller than the primary dwelling.
- ADU must have separate features from the primary dwelling for the following:
  - Means of ingress/egress
  - Kitchen
  - Sleeping area
  - Bathing area/bathroom facilities
- Kitchen must include cabinets, countertop, sink with running water, and stove.
- Construction of the ADU must be consistent with the quality of the primary dwelling.
- If it is determined that the property contains an ADU that is not allowed under zoning, the property is eligible, as follows:
  - Hazard insurance replacement cost coverage must include the ADU.
  - Illegal use conforms to the subject neighborhood and market.

- Appraisal report demonstrates that improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use.
- If an ADU can only be accessed through the primary dwelling or the area is open to the primary dwelling, it is not considered an ADU and is ineligible as an ADU.

Other Requirements:

- The property is defined as a one-unit property with up to two ADUs.
  - Three or more ADUs on a single lot are not permitted.
- Appraisal Report:
  - Include a description of the ADU and analyze the effect it has on marketability of the subject property.
  - Demonstrate that improvements are typical for the market through an analysis of at least one comparable property with the same use and same number of ADUs.
  - Form 1025 must be completed when there are two ADUs.
- Rental income may be used for the accessory unit subject to the following:
  - Appraisal report to reflect zoning compliance is legal or in compliance with zoning laws.
  - Permits are to be verified if required by the jurisdiction.
  - Appraisal report to include at least one comparable with the same number of ADUs as the subject property.
  - Gross market rents must be itemized when there are two ADUs that generate rental income.
  - Purchase Transactions:
    - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income.
    - Investment:
      - Long Term Rental: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent, if the lease is transferred (copy of lease agreement required).
      - Short Term Rental: Follow documentation requirements for the selected doc type.
        a. If using AirDNA, total bedroom count should include both the primary dwelling and ADU(s).
  - Refinance Transactions:
    - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income.
    - Investment:
      - Long Term Rental: Use the lower of the market rent on FNMA Form 1007/1025 or actual rent.

        When documenting actual rent, follow requirements for the selected doc type.
      - Short Term Rental: Follow documentation requirements for the selected doc type.
        a. If using AirDNA, total bedroom count should include both the primary dwelling and ADU(s).

Outbuildings

Underwriting must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

TYPE OF OUTBUILDING	SUITABILITY
Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property	The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal building	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals	The presence of the outbuildings may indicate that the property is agricultural in nature. Underwriting must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

Solar Panels

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See "Solar Panels" guideline above for additional criteria.

Private Roads

Require a permanent easement for ingress and egress with provisions for road maintenance.

Rural Property [NOT ALLOWED]

A property is classified as rural if:

- The appraiser indicates in the neighborhood section of the report a rural location or
- The following two (2) conditions exist:
  - The property is located on an unpaved road, and
  - Two of the three comparable properties are more than five (5) miles from the subject property

See FundLoans Matrices for program eligibility and LTV restrictions.

Transfer of Appraisal

A transferred appraisal report is acceptable provided the report meets Underwriting's appraisal requirements for independence.

2.1.1.2 APPRAISAL REVIEW REQUIREMENTS

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an "as is" value for the subject property (the "Appraisal Review Value") as of the date of the subject loan transaction.

The following options are eligible review products:

- Submit the appraisal report to Collateral Underwriter® (CU) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR).
  - Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less.

    - If the score exceeds 2.5, the file must include either an enhanced desk review, AVM, field review, or second appraisal.
- An enhanced desk review product from one of the following choices:
    - ARR from Stewart Valuation Intelligence FKA Pro Teck
    - CDA from Clear Capital
    - ARA from Computershare
    - CCA from Consolidated Analytics
    - VRR from Homegenius Real Estate
    - Valreview Appraisal Review Value from Valligent (Veros Software Company)
- If the enhanced desk review product reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.
- AVM from an approved vendor with an acceptable FSD score range. AVM value must be within 10% of the appraised value.
    - AVM may not be more than 90 days old at closing (date the Note is signed)
    - If the AVM reflects a value more than 10% below the appraised value or cannot provide a value, the file must include an enhanced desk review product, field review, or a second appraisal. These may not be from the same appraiser or appraisal company as the original report.

AVM Vendors

THE FOLLOWING AVM VENDORS ARE ACCEPTABLE:	
AVM Vendor	**Acceptable FSD Score Range**
Clear Capital	0.00 to 0.13
Collateral Analytics	0.00 to 0.10
House Canary	0.00 to 0.10
Red Bell Real Estate (Homegenius)	0.00 to 0.10

2.1.1.3 MINIMUM PROPERTY REQUIREMENTS

MINIMUM SQUARE FOOTAGE		
Single Family 700 sq. ft.	Condominium 500 sq. ft.	2-4 Units 400 sq. ft per individual unit

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

2.1.1.4 PERSONAL PROPERTY

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

2.1.1.5 ESCROW HOLDBACKS

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase. FundLoans will not acquire any loan with an escrow holdback.

2.1.1.6 DECLINING MARKETS

The loan transaction is subject to a 5% reduction in LTV if the property is in a declining market. Declining markets are determined by a) property location in a State identified by FundLoans, or b) the appraisal report reflects a declining market under housing trends.

2.1.2 PROPERTY TYPES

2.1.2.1 ELIGIBLE PROPERTIES

- Single Family Detached
- Single Family Attached
- Planned Unit Development (PUD)
  - Single Family Detached homes with PUD riders
- De minimus Planned Unit Development (dPUD)
  - PUD with "de minimus" monthly HOA dues
- 2-4 Unit residential properties
- Condominium (See "Condominiums Projects" for complete condominium eligibility criteria)
- Condo hotels (See "Condominium Hotels" for complete condominium eligibility criteria)
- Modular homes
- Properties of 20 acres or less (not rural)
- Leaseholds (in areas where leaseholds are common)

2.1.2.1.1 TILA HIGHER PRICED MORTGAGE LOANS (HPML) APPRAISAL RULE 1026.35(A)(1) (PROPERTY FLIPS)

- Applies to covered HPML transactions.
  - Qualified Mortgages (QM) are excluded.
- A property is considered a "flip" if either of the following are true:
  - The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower's purchase agreement. The price in the borrower's purchase agreement exceeds the property Seller's acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower's purchase agreement.
    - The acquisition date is the day the seller became the legal owner. The purchase date is the day the borrower and the seller sign the home purchase agreement. Start with the day after the acquisition date and count up to and including the purchase date.
- If the property is a "flip" as defined above, the following additional requirements apply:
  - A second appraisal must be obtained.

- If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the borrower in compliance with the federal HPML requirements.
- The second appraisal must be dated prior to the loan consummation/note date.
- The property Seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate the actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

2.1.2.2 INELIGIBLE PROPERTIES

- Rural properties
- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy, regardless of location
- Properties with agricultural features (e.g., vineyards, farms, ranches, orchards, equestrian facilities)
- Manufactured or Mobile homes
- Units subject to timeshare arrangements
- Properties with fractional ownership
- Units in a Co-op development
- Properties used as boarding houses, bed/breakfast, or single room occupancy (e.g., pad split app)
- Properties used as healthcare facilities (e.g., assisted living, elder care, recovery/treatment)
- Properties with nonresidential, income-producing structures on premise (e.g., billboards, cell phone towers, commercial workshop)
- Properties with zoning violations or illegal use
- Dome or geodesic properties
- Properties on Native American Land (Reservations)
- Log homes that are not common to the area
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana
- Barn conversions (barndominiums)

2.1.3 ACREAGE LIMITATIONS

- A maximum of 20 acres, see program matrices for restrictions
- No truncating allowed

2.1.4 STATE ELIGIBILITY

All states where Fundloans holds a license, excluding Puerto Rico, Guam, and the US Virgin Islands

2.1.5 TEXAS HOME EQUITY LOANS 50(A)(6)

Not eligible.

2.1.6 LEASEHOLD PROPERTIES

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the title policy.

Underwriting must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease), with the exception of co-ops and manufactured homes which are not eligible.

2.1.7 FUNDLOANS EXPOSURE – BORROWER LIMITATIONS

FundLoans' aggregate exposure to a single borrower and/or household for this program only shall not exceed $5,000,000 in current unpaid principal balance (UPB) or (2) loans.

2.1.8 DISASTER AREAS

Underwriting is responsible for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas for Individual Assistance, as identified by reviewing the FEMA website at www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, wildfires, coastal erosion, or landslide, additional due diligence must be used to determine if the disaster guidelines should be followed.

2.1.8.1 APPRAISAL COMPLETED PRIOR TO DISASTER

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition as the previous inspection, and the marketability and value remain the same.
- Inspection Report must include new photographs of the subject property and street view, through one of the following:
  - FNMA Form 1004D, or
  - Post Disaster Inspection (PDI) Report, see "Post Disaster Inspection Requirements", or
  - Property Condition and Inspection Report, see "Post Disaster Inspection Requirements"
- Any damage must be repaired and re-inspected prior to purchase.

2.1.8.2 APPRAISAL COMPLETED AFTER DISASTER EVENT

- If the appraisal report indicates damage to the structure because of a FEMA Declared Disaster event, the structural damage must be repaired and a re-inspection completed on FNMA Form 1004D prior to purchase by FundLoans.

2.1.8.3 DISASTER EVENT OCCURS AFTER CLOSING BUT PRIOR TO LOAN PURCHASE

A loan is ineligible for purchase until an inspection is obtained based on the following:

- Inspection Report must include new photographs of the subject property and street view, through one of the following:
  - FNMA Form 1004D, or
  - Post Disaster Inspection (PDI) Report, see "Post Disaster Inspection Requirements," or
  - Property Condition and Inspection Report, see "Post Disaster Inspection Requirements"
- If subject property is free of damage, nothing further is required.
- Any indication of damage reflected in the report will require a re-inspection of the property verifying the damage has been repaired on one of the following:

- FNMA Form 1004D, or
- Post Disaster Inspection (PDI) Report, see “Post Disaster Inspection Requirements,” or
- Property Condition and Inspection Report, see “Post Disaster Inspection Requirements”

2.1.8.4 POST DISASTER INSPECTION REQUIREMENTS

- Inspection must be from the appraiser or a third-party vendor (e.g., Clear Capital, Stewart/Pro Teck)
- Exterior color photos of the subject property and street scene
  - Address verification to be included
- Details of the damage, if any, including cost to cure
  - Color photos of damage incurred as a result of the disaster
- If repairs are required, re-inspection of the subject property to evidence repairs were completed in a workmanlike manner
- Any indication of damage reflected in the report will require the damage to be remediated prior to purchase.

2.1.9 CONDOMINIUM PROJECTS

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project’s facilities, common elements, and limited common elements.

To qualify as an acceptable condominium unit, the condominium project must be common for the area and demonstrate good marketability.

- All Loans secured by condominium projects require a completed Condominium Project Questionnaire except for:
  - Projects with a Fannie Condominium Project Manager (CPM) approval subject to the following:
    - CPM approval must not be expired as of the Note date.
    - File must contain a PDF print-out of the CPM approval. The PDF document must include a print date that verifies the PDF print-out is generated within 10 days of the Note date.
  - Site Condominium
  - 2-4 Unit project
  - For the above projects that do not require a completed Condominium Project Questionnaire, the following requirements must be met:
    - Project is not ineligible, see “Ineligible Projects”
    - Evidence of sufficient hazard, flood, and walls-in insurance coverage if the subject unit has individual coverage. If the insurance covers the entire project, it must be sufficient in the event of a total loss.
- Projects consisting entirely of detached (site) units will not require a project review and are eligible for single-family dwelling LTV/CLTV. Completion of the Condominium Project Questionnaire is not required for site condominiums.
- Projects have been created and exist in full compliance with applicable local jurisdiction, State, and all other applicable laws and regulations.
  - Projects are ineligible if there are outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project’s building(s).

- Projects in need of critical repairs are ineligible, see “Project Conditions – Critical Repairs.”
- Special assessment information is to be provided to determine if there is a critical repair or significant deferred maintenance, see “Special Assessments.”
- FundLoans project exposure maximum shall be $5,000,000 or 20% of the total units in a project greater than 4 units, whichever is lower.
- Subject Unit Minimum Requirements: Minimum 500 Square Feet, Full Size Kitchen, minimum of one (1) bedroom.
- Commercial space allowed up to 50% of the project.
- No more than 20% of the total units in the project may be 60 days or more past due on the condominium/HOA fees.
- For condominium projects consisting of five or more units, single entity ownership is limited to 20% of the project.
- Investor concentration allowed up to 60%. A higher percentage may be considered when the subject transaction is an investment property when a history of a high percentage of rental units in the project can be demonstrated.
- Projects involved in litigation are acceptable provided the lawsuit(s) are not structural in nature which impact the subject unit and do not affect the marketability of the project units and potential damages do not exceed 25% of HOA reserves or documentation from the insurance carrier or attorney representing the insurance carrier that the insurance carrier has agreed to conduct defense and the HOA insurance policy is sufficient to cover the litigation expense.
- Borrower must carry HO-6 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.
- Underwriting must confirm that the project documents do not give a unit owner or any other party priority over the rights of the first mortgagee.

2.1.9.1 PROJECT CONDITION – CRITICAL REPAIRS

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project’s building(s), or the financial viability or marketability of the project. Projects in need of critical repairs are ineligible.

Critical repairs include conditions such as:

- Material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year
- Any mold, water intrusions or potentially damaging leaks to the project's building(s)
- Advanced physical deterioration
- Any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability
- Any unfunded repairs costing more than $10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment)
- Significant deferred maintenance for improvements in need of substantial repairs and rehabilitation

Examples of critical repairs include but are not limited to the following: sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, plumbing systems, parking structures, or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

2.1.9.1.1 SPECIAL ASSESSMENTS

The Homeowners Association (HOA) will assess a one-time fee to unit owners to cover unexpected or large expenses not covered by regular HOA dues or reserve funds, known as a special assessment.

Special assessments may be current or planned. Underwriting must obtain and review the following to determine if it addresses a critical repair:

- Determine the purpose of the special assessment.
- Determine when the special assessment was approved, when it is planned (approved by the unit owners, but not yet initiated by the board), or already being executed.
- Review the original amount of the special assessment and the remaining amount to be collected.
- Evaluate the expected date the special assessment will be paid in full.

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

2.1.9.1.2 INSPECTION REPORTS

An inspection report will assess the condition of the project's building(s) and may cover structural and/or mechanical components of the project. If a report is provided, the following items should be reviewed to determine if the project is eligible:

- The report cannot indicate that critical repairs and/or significant deferred maintenance are required, no evacuation orders are in effect, and no regulatory actions are required.
- If the inspection report indicates there are unaddressed critical repairs and/or significant deferred maintenance, the project is ineligible until the required repairs have been completed and documented accordingly.
    - Underwriting must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.
- Underwriting is responsible for determining which documents are needed to ensure compliance with the requirements and may need to review a combination of documents.
    - Examples of this documentation include, but are not limited to HOA board meeting minutes, engineer report(s), structural and/or mechanical inspection reports, reserve studies, a list of necessary repairs provided by the HOA or the project's management company, a list of special assessments provided by the HOA or the project's management company, and other substantially similar documentation.

2.1.9.2 ESTABLISHED PROJECTS

- 90% of the total units in the project must be sold and conveyed to the unit owners.
- 40% of the total units in the project must be owner occupied.
- All phases are complete.
- HOA must be conveyed to the unit owners – no developer or builder-controlled projects allowed.

- All comparable sales may be from within the subject's project if the project is established and consists of 100 or more units. Recent sales of model match units, if available, must be utilized in the appraisal report.

2.1.9.3 NEW OR NEWLY CONVERTED PROJECTS

- 50% of the total units in the project or subject's phase must be sold and conveyed to the unit owners AND at least 50% of the units must be owner occupied.
- Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.
- Project may be subject to additional phasing.
- The project developer may be in control of the condominium association provided the Master Agreement allows for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time frame.

2.1.9.4 CONDOMINIUM HOTELS (CONDOTEL)

Condominium Hotel – (a.k.a. Condo Hotel, Condotel)

- Projects that offer any of the following characteristics:
  - Hotel/resort amenities, services, and/or fees
  - Cleaning and maintenance services
  - On-site or centralized reservation and/or registration
  - Short term rentals (daily, weekly, monthly) managed by the Project or leasing office
  - Food Service/restaurant/bar
- Occupancy Type: Primary, Second Home, or Investment.
- Maximum LTV/CLTV: See program Loan/LTV matrix
- Maximum Loan Amount: See program Loan/LTV matrix
- Investor concentration, within the subject project, may exceed established project criteria, up to 100%.
- Gross rents (for all income doc types) reduced by 10% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short-term property.
- Minimum square footage: 500
- Fully functioning kitchen – appliances to include a refrigerator and cooktop/stove/oven
- Separate bedroom required

2.1.9.5 INELIGIBLE PROJECTS

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
  - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
  - The project or building is often owned by several owners as tenants-in-common or by a

homeowners' association.

- Fragmented or segmented ownership
    - Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.
- Any project in need of critical repairs.
- Any project with significant deferred maintenance or has received a directive from a regulatory or inspection agency to mark repairs due to unsafe conditions.
- Any project with outstanding violations of jurisdictional requirements (zoning ordinances, codes, laws, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s).

2.0.9.6 CONDOMINIUM INSURANCE REQUIREMENTS

Project to meet all Fannie Mae® insurance requirements for property, liability, and fidelity coverage, except for the master insurance deductible.

2.0.9.6.1 MASTER PROPERTY INSURANCE

Master property insurance policies are required for the common elements and residential structures unless the condo project requires individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements in "Property Insurance."

Master property insurance policy must provide for claims to be settled on a replacement cost basis.

- Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable.
- Policies that limit, depreciate, reduce, or otherwise settle losses at anything other than a replacement cost basis are also unacceptable.

Underwriting must verify that the property insurance coverage amount is at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures, as of the current property insurance policy effective date.

- The source that the Underwriting uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal.

Master insurance policy must include the project name and project address for the location of the condo project.

- Borrower name, unit number, and mortgagee clause are not required to be included in master insurance policy.

Deductible
The maximum deductible is 10%.

Fidelity or Employee Dishonesty Insurance

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least the sum of three months of assessments on all units in the project is required.

2.0.9.6.2 GENERAL LIABILITY INSURANCE

General liability insurance is required for all condo projects, except for detached condo units and 2-4 unit condo projects.

When required, the HOA must maintain a general liability insurance policy for the entire project. The general liability insurance policy must include coverage for:

- Commercial spaces that are owned by the HOA even if they are leased to others, and
- Bodily injury and property damage that results from the operation, maintenance, or the use of the project's common elements, and any other areas under its supervision

Amount of coverage must be at least $1,000,000 for bodily injury and property damage for any single occurrence.

The general liability insurance policy must include a separation of insureds or severability of interests provision in its terms. If the policy does not include separation of insureds or severability of interests in its terms, FundLoans requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA or co-op corporation or of other unit owners.

2.0.9.6.2 HO-6

The borrower must maintain H0-6 Policy or "Walls-In" coverage unless the master property insurance policy provides coverage for the subject unit. The effective date of the policy must be on or before the Note date.

H0-6 Policy must include coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built- ins, and any improvements made to the unit if the master or blanket policy does not provide interior unit coverage.

The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

Deductible

The maximum deductible amount is based on the following:

- 5% deductible for LTV > 80%
- 10% deductible for LTV ≤ 80%

2.0.9.6.2 MASTER FLOOD INSURANCE

The condominium homeowner's association must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA.

- The only building that must be verified is the subject unit's building.
- Evidence of master flood insurance policy is not required if the unit owner maintains an individual flood dwelling policy that meets the coverage requirements in section "Flood Insurance."
- Master flood insurance policy must cover the following:
  - Subject unit's entire building, and
  - All of the common elements and property, including machinery and equipment that are part

of the building

- Building Coverage must be at least equal to the lesser of:
  - 80% of the replacement cost value, or
  - Maximum coverage amount available per NFIP per unit (i.e., Total number of units in the condominium building times $250,000)
- Contents Coverage must be at least equal to the lesser of:
  - 100% of the replacement cost value of all contents owned in common by the association members, or
  - Maximum coverage amount available from NFIP

Deductible

Deductible may not exceed the maximum deductible amount currently offered by NFIP