FUNDLOANS

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GUIDELINES

Contents

I. INTRODUCTION

FundLoans' guidelines strive to provide clear underwriting standards to help Brokers understand the types of loans eligible for funding. These guidelines outline the level of risk acceptable to FundLoans and describe general and specific requirements for each program, including criteria pertaining to the borrower's employment, income, assets and liabilities, credit, and qualifying ratios. Although these guidelines cover most circumstances, they may not comprise all possible loan scenarios. Where a specific circumstance is not addressed, FundLoans will apply prudent underwriting principles at its sole discretion to determine loan eligibility. These guidelines represent the minimum necessary for a loan to be funded by FundLoans. In all instances, the terms of the loan must relate to the borrower's ability to repay, and the value and marketability of the property must be acceptable collateral for the transaction. These guidelines must be interpreted and applied by the Broker in a manner that complies with all applicable laws and regulations, including consumer protection laws and regulations. FundLoans is under no obligation to fund any loan that satisfies these underwriting standards and may, at its sole discretion, fund loans that are exceptions to published program criteria and guidelines. Compliance by the Broker with these underwriting standards shall not be deemed to create a Commitment by FundLoans to fund, or cause any third-party to purchase, any loan. Such decision to fund is at the sole discretion of FundLoans.

II. COMPLIANCE REQUIREMENTS

Compliance with all federal, state, local, and municipal laws, ordinances, rules, and regulations including, without limitation, usury, truth-in-lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, fair housing, and lending disclosure laws is required. Broker must ensure that each loan is in compliance with applicable governing statutes and regulations as amended and in effect at the time the loan was made including, but not limited to, the following:

- Credit Opportunity Act (Regulation B)
- Equal Consumer Protection Act
- Fair Credit Reporting Act (FCRA)
- Truth-in-Lending Act (Regulation Z)
- Real Estate Settlement Procedures Act (RESPA-Regulation X)
- Home Mortgage Disclosure Act (HMDA-Regulation C)
- Home Ownership and Equity Protection Act (HOEPA)
- Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)
- Appraisal Independence Requirements (AIR) and Home Valuation Code of Conduct (HVCC)
- Office of Foreign Assets Control (OFAC)
- Customer Identification Program (CIP)
- Dodd-Frank Act (DFA)
- Consumer Financial Protection Rules

FundLoans will update due diligence requirements to reflect regulatory changes as necessary related to mortgage lending. Brokers should not rely on FundLoans to advise the Broker of any regulatory policies, updates, or changes in order to originate loans.

III. Borrower Eligibility

Borrowers must have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower. All borrowers must have a valid social security number.

a. Eligible Borrowers

- U.S. Citizens
- Permanent resident aliens
    - Copy of valid resident alien card must be included in loan file.
- Non-permanent resident aliens

- Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
    - E Series (E-1, E-2, E-3)
    - G Series (G-1, G-2, G-3, G-4, G-5)
    - H Series (H-1B, H-1C)
    - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
    - NATO Series (NATO 1 – 6)
    - O Series (O-1)
    - TN-1, Canadian NAFTA visa
    - TN-2, Mexican NAFTA visa See USCIS.gov for more information.
- Must have a valid Social Security Number.
- Must have a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.
- Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
- Must have a two (2) year credit history in U.S. and must meet minimum credit requirements as set forth herein. Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.

- Inter-Vivos Revocable Trusts
    - Trust must be established by one or more natural persons, individually or jointly.
    - The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
    - 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.
    - At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily

performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.

- The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

- First time homebuyers

  A first time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date.

  - Owner-occupied primary residences only.
  - Maximum 80% LTV/CLTV.
  - See applicable product matrix for loan limits and other requirements.

- Maximum of four (4) borrowers per loan.

b. Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Borrowers who are party to a lawsuit.
- Non-occupant co-borrowers contributing income.
- Foreign Nationals.
- Borrowers with Diplomatic Immunity.
- Illinois Land Trusts.
- Community Land Trusts.

c. Multiple Financed Properties

- Borrowers may not own more than four (4) residential 1-4 unit financed properties regardless of the occupancy of the subject property.
- Borrowers must have six (6) months PITI reserves for each additional financed property owned.
- Financed properties held in the name of an LLC or other corporation, commercial properties, and unimproved land can be excluded from the calculation of number of properties financed.

d. Ownership

- Ownership must be fee simple only and must be in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as follows:
    - Individual
    - Joint Tenants
    - Tenants in Common

IV. OCCUPANCY

a. Primary Residence

A primary residence is the property the borrower occupies as his or her principal residence. At least one of the borrowers must occupy, be on title to the property and execute the Note and the security instrument. A borrower may not maintain more than one primary residence at any given time.

- 1-4 units detached, attached, PUD, and eligible condominiums.

b. Second Home

The property must be occupied by the borrower from time-to-time and is suitable for year-round use. Typically, the property is located in either a resort or vacation area or for convenience in a city where the borrower works when the primary residence is in a distant suburb.

- 1 unit detached, attached, PUD, and eligible condominiums.
- Property may not be a time share, subject to a rental agreement, or other shared ownership arrangements.
- The property must be a reasonable distance from the borrower's primary residence.

- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
- Rental income from a second home cannot be used to qualify the borrower.

c. Investment Property (Non-Owner-Occupied)

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

- 1 unit detached, attached, PUD, and eligible condominiums.

For cash-out refinance transactions on an investment property, a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement or maintenance of a rental property is required. Loans delivered without the affidavit may still be eligible but will be subject to TILA compliance.

Cash out loan proceeds used for any personal use are not eligible.

V. ELIGIBLE TRANSACTION TYPES

a. Purchases

- Must adhere to Agency guidelines.
- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If property seller has taken title to the subject property within ninety (90) days prior to the date of sales contract the following requirements apply:
    - Property seller on the purchase contract is the owner of record.
    - LTV/CLTV will be based on the lesser of the prior sales price or the current appraised value.

Loans that are bank or relocation sales are exempt from the above requirements.

- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments, and ceiling fans are not considered personal property for purposes of this Section V(a).

b. Rate and Term Refinance

- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.
- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.
- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- The mortgage amount may include the:
  - Principal balance of the existing first lien.
  - Payoff of a purchase money second lien.
  - Payoff of a co-owner pursuant to a written agreement.
  - Financing of the payment of prepaid items and closing costs.
  - Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding $2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
- Cash back to the borrower is limited to the lesser of $2000 or 1% of the new mortgage loan.
- Principal Reduction is permitted up to a maximum of $2,000
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

c. Cash-Out Refinance

- Borrower must have held title for a minimum of 6 months from closing date. Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

- Texas 50(a)(6) loans are ineligible.
- Cash out is limited to the maximum amounts stated in the applicable product matrix.

d. Continuity of Obligation

For a refinance transaction to be eligible there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any one of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are in the nameof a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently been legally awarded, the property (divorce, separation, or dissolution of a domestic partnership).

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

e. Delayed Financing Refinance

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas.

The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.

f. Contract for Deed/Land Contract

The payoff of an installment loan land contract is not eligible.

g. Construction Loan Refinancing

Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:

- Single closing construction permanent loan refinances that include a modification are ineligible.
- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of: (a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs); or (b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Cash out is limited to the maximum amounts stated on the applicable product matrix.
- Construction loan refinances in which the borrower has acted as builder are not eligible.

h. Non-Arm's Length Transaction

All of the parties to a transaction should be independent of one another. Except as indicated below, if a direct relationship exists between or among the parties, the transaction is a non-arm's length transaction, and the related loan is ineligible. The following non-arm's length transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.

- Borrower acting as his or her own real estate agent.
- Borrower is the employee of the Broker.
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
- Investment property transactions must be arm's length.

VI. CREDIT DOCUMENTATION REQUIREMENTS

For scenarios not specifically addressed below, please contact your account executive.

a. Age of Credit Documents

- For all transaction types, credit documents may not be older than 90 days from the Note date.

b. Credit Score

- The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian, and TransUnion). For multiple borrowers the credit score is the lowest of all representative credit scores.
- If only one credit score or no credit score is reported, borrower is not eligible.
- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.

See applicable product matrix for minimum credit score requirements.

c. Minimum Credit Requirements

- Each borrower contributing income must have three (3) open and active trade lines for 24 months with a 24-month history. Two (2) of the three (3) trade lines must show activity within the last 12 months from date of application.
- One trade line must be an installment, rental, or mortgage account.
- FundLoans will consider a borrower not meeting the above trade line requirement if the credit history meets the following:

- No fewer than eight (8) trade lines are reporting, one (1) of which must be a mortgage or a rental history.
- At least one (1) trade line has been open and reporting for a minimum of twelve (12) months.
- The borrower has an established credit history for at least ten (10) years.

- Non-traditional/alternative credit accounts are not considered acceptable trade lines.
- Authorized user accounts are not considered acceptable trade lines.
- Trade lines may not show significant adverse history.

d. Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required.
- Housing payment history must reflect 0 x 30 dates in most recent 24 months.

Mortgage/Rental history may be documented as follows:

- A 24-month mortgage payment history from an institutional lender, including the month prior to closing, as verified through either: (i) credit bureau report reference for 24 months, (ii) 24 months canceled checks, or (iii) most recent 12 months canceled checks with a VOM for the prior 12 months.
- For rental verification, a standard VOR completed by a professional management company or 24 months bank statements or canceled checks are required.
- If a borrower is refinancing a privately held mortgage the following payment verification requirements apply:
  - The privately held mortgage payments must be verified with either cancelled checks or bank statements (if the payment is automatically withdrawn from the borrower's account).
  - Evidence must be included in the loan file that the lien being paid off is a current recorded lien against the subject property.
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with

a satisfactory letter of explanation.

e. Credit Inquiries

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
- Borrower must be qualified with any new debt.

f. Modifications

- Only lender-initiated modifications on owner-occupied properties with proof that they were not caused by a distress situation.
- The borrower must have made 48 consecutive months of timely mortgage payments on the modified loan before closing on the refinance mortgage loan.
- Restructured loans in which the terms of the original transaction have been changed resulting in a partial or absolute forgiveness of debt; or a restructure of debt are not eligible:
    - Forgiveness of a portion of principal and or interest in either the first or the second mortgage.
    - Application of a principal curtailment or on behalf of the investor to simulate principal forgiveness.
    - Conversion of any portion of the original mortgage debt to a subordinate mortgage or conversion of any portion of the original mortgage debt from secured to unsecured.

g. Liens, Judgments, and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than $1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed $2,500.00.

h. Bankruptcy, Foreclosure, Notice of Default (NOD), Deed-In-Lieu of Foreclosure, and Short Sales

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale, or deed-in-lieu measured from the date of completion to the date of application.

- A satisfactory letter of explanation for the event from the borrower is required.
- Borrower must show re-established credit and meet the minimum credit requirement.

VII. Employment and Income

For questions regarding employment and income requirements not addressed below, please contact your account executive.

a. Income Sources and Calculation of Income

All income sources and method of income calculation must meet most recent Appendix Q Standards for Determining Monthly Debt and Income. The loan file should include an Income Analysis form detailing income calculations.

- The non-taxable portion of fixed income such as Social Security income, VA benefits, Pensions, and Annuity income may be grossed-up twenty five percent (25%).
- Foreign income used for qualifying must be supported by the most recent two (2) years U.S. tax returns.
- Unreimbursed business expenses must be deducted from income. This includes borrowers who earn commission income regardless of the percentage of commission income to total income.

b. Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower. All borrowers contributing income for qualification must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment greater than six (6) months during the previous two (2) years.

c. Income Documentation Requirements

Important Note Regarding Documentation: Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship, or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection below. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if Broker relied upon the borrower's salary or other income to establish eligibility. All required documentation as described here and in the following sections must be obtained prior to closing and submitted in the closed loan file.

Salaried Borrowers:

- Completed, signed, and dated final Uniform Residential Mortgage Application. Most current form must be used.
- W-2's from all employers for the past two (2) years. All W-2's must be computer generated.
- If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required.
- Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.
- Unreimbursed business expenses prior to 2018 must be deducted from income. Borrower must be self-employed in order to deduct business expenses.
- Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.
- Signed IRS Form 4506T.
- Two years tax transcripts are required to be obtained from the IRS. Borrower pulled transcripts are not acceptable. The transcripts will be used to validate the income documentation used to underwrite the loan. Wage transcripts are acceptable for W-2 borrowers. The IRS transcripts and the supporting income documentation provided by the Broker must be consistent.

Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules:

- Salaried borrowers who also own 25% or more of a business or other entity are required to provide a year-to-date P&L and balance sheet for that business or entity <u>even if the income from that business or entity is not being used to</u>

qualify. This requirement includes all businesses and entities including those organized as pass through entities.

- Salaried borrowers who file a schedule C (sole proprietorship) will be considered as self-employed and required to provide a year-to-date P&L and balance sheet. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.
- Most recent signed two (2) years business tax returns are required for businesses where the borrower owns 25% or more and the business reports an income loss on the schedule K-1. Loss must be deducted from income.

Salaried Borrowers with Commission/Bonus:

- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2-year history of the receipt of the income is required.
- This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a year-to-date paystub.
- A year-to-date paystub, W-2's and tax returns alone will not satisfy the documentation requirements for bonus, commission, or any other non-base salary compensation.

Verbal VOE:

- Verbal VOE of current employment dated within ten (10) calendar days prior to closing documented in writing is required. The verbal VOE must cover 24 months of employment. If the borrower has changed jobs during the past two years, the verbal VOE must show the start and end dates for each job. The VOE(s) documenting prior employment, not including the current employer, must be dated prior to closing, but are not required to be dated within ten (10) calendar days of closing. Any employment gaps one (1) month or greater must be addressed with a satisfactory signed letter of explanation from the borrower. Closing in this section is defined as the notary date on the Security Instrument.

Self-Employed Borrowers:

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.

- Completed, signed, and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Most recent two (2) years personal tax returns (including all schedules) required for all business income, regardless of whether or not the business income (profit or loss) is used to qualify. The tax returns must be signed and dated prior to closing.
- Most recent two (2) years business tax returns (including all schedules) required for all business income used for qualifying. Business tax returns also required if the personal tax return schedules show a loss in the prior year for any business, regardless of whether or not the business income is used to qualify, in order to calculate the average loss. The tax returns must be signed and dated prior to closing.
- Self-employed borrowers using wage income to qualify paid by their business need to fully document the income with W-2's for the past two (2) years and most recent paystubs, covering a thirty-day (30) period with year-to-date earnings. W-2 and paystubs must be computer generated.
- Signed IRS Form 4506C.

Additional Requirements for P&L, Balance Sheet, and Business Bank Statements:

FundLoans will apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and whether there is a reasonable expectation of continuance.

The following documentation will be required:

- (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; <u>or</u>
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent three months represented on the year-to-date P&L, and (3) a Balance Sheet.
    - For example, the business bank statements should be from April and May 2021 for a year-to-date profit and loss statement dated

through May 31, 2021.

   - The two most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the additional statements or other documentation will be required to support the information from the current year- to-date P&L statement.

- All borrowers owning 25% or more of a business or entity must provide a year-to-date P&L statement and balance sheet for that entity, regardless of whether the business income is being used to qualify. This requirement includes all business entities including those organized as pass through entities.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- The P&L and balance sheet is required even if the borrower does not have a business checking account.
- P&L and tax returns must show stable or increasing income from all business entities and income sources for the period relative to previous periods. Income cannot decline by 20% or more from the prior tax period.

Small Business Administration (SBA) Loans and Grants Requirements:

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

- Proceeds from the PPP loan must not be included as business income or assets.
- PPP loan proceeds cannot be used for the subject transaction down payment,

closing costs, prepaids or reserves.

- Follow all requirements in this section for underwriting self-employed borrowers.

Verification of Active Business:

- Verification of the existence of the borrower's business must be obtained within five (5) calendar days prior to closing. Methods of verifying business include:
    - Verification from a third party such as a CPA, regulatory agency, or by an applicable licensing bureau. If CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years.

Rental Income:

- 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 all properties where rental income is being used to qualify. Rental income for properties with leases from management companies or other rental companies (i.e., Airbnb and VRBO) is not allowed.
- Proposed rental income from the comparable rent schedule 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 12 months or the time period after the lease expired.
- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITI 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.

d. Retirement or Pension Income

Retirement or Pension income must be verified by the following:

- Copies of retirement award letters. Copies of last two (2) months bank statements to document the regular deposit of payments.

- Distributions from a retirement account (401K, IRA, Keogh, SEP) must be documented with a distribution letter and copies of last two (2) months bank statements to document the regular deposit of payments.
- Most recent signed tax return. If distributions are not evident on the tax return, the income cannot be considered as qualifying income.

Annuity retirement benefits must have a minimum continuance of three years from the date of the application to be considered as qualifying income.

e. Social Security Income

Social Security Income must be verified by the following:

- Copy of the Social Security Administrations award letter.
- Copies of last two (2) months bank statements to document the regular deposit of payments.

Benefits must have a minimum continuance of three years from the date of the application to be considered as qualifying income.

f. Alimony and Child Support Income

Alimony and Child Support are allowable sources of income with proof of a minimum of three-year continuance.

g. Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted stock income (RSU).
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower’s primary residence.
- Expense account payments.
- Retained earnings.
- Non-occupant income.

VIII. DEBTS AND LIABILITIES

For information regarding the treatment of debts and liabilities not addressed below, please contact your account executive.

a. Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that all liabilities are included in qualifying. This includes debts paid by another entity such as the borrower's business or debts being paid by a family member. Refer to the applicable product matrix for the maximum allowable DTI.

b. Installment Debt

- Installment debt, including car lease payments, must be included in the qualifying ratio regardless of months remaining.
- Debt that is not a contingent liability must be included in the DTI. A contingent liability is defined as a debt paid by a party or entity other than the borrower where said party or entity and not the borrower is the primary obligor. If the borrower is the primary obligor on any liability the debt must beincluded in the DTI. Example: A borrower financed the purchase of an automobile for their business and the business pays the loan. If the loan is in the borrower's name this debt must be included in the DTI.
- Real estate owned by the borrower where the borrower is not on the Note may be excluded from DTI with 12 months cancelled checks showing another party is making the payments. Tax and Insurance amounts on the property must be documented and the full amount of taxes and insurance must be included in the DTI.
- PITI on real estate owned pending sale must be included in the DTI.
- Borrowers who have entered into an IRS repayment plan must have a minimum of three (3) months timely pay history. Credit report and title must not indicate an IRS tax lien.
- Student loans must be included as a long-term debt even if payments are deferred. If the monthly amount of a student loan is not shown on the credit report a payment of one percent (1%) of the balance may be used for qualifying.
- Payments related to a 401(K) loan do not need to be included in total debt obligation.

- Child support and alimony payments with 10 months or less remaining do not need to be included in total debt obligation unless the debt effects the borrower's ability to pay the mortgage during the months immediately after loans closing.
- Installment debt may be paid off to qualify either before or at closing using cash-out proceeds.
- Gift funds may not be used to pay off debt to qualify.

c. Revolving Debt

- All revolving debt is included for qualifying regardless of number of payments remaining.
- The monthly payment amount of a revolving account shown on the credit report may be used for qualifying.
- If the monthly payment amount of a revolving account is not shown on the credit report a payment of five percent (5%) of the balance may be used for qualifying.
- Payments may only be excluded if the account is documented as paid in full and closed.
- Revolving debt may be paid off to qualify either before or at closing using cash-out proceeds. Documentation that the revolving debt has been paid off and the account is closed is required.
- Gift funds may not be used to pay off debt to qualify.
- For open 30-day charge accounts (for example, American Express), the borrower must have sufficient verified liquid assets to pay off the balance in addition to any reserve requirements to exclude the payment.
- Debt that is not a contingent liability must be included in the DTI. A contingent liability is defined as a debt paid by a party or entity other than the borrower where said party or entity is the primary obligor. If the borrower is the primary obligor on any liability the debt must be included in the DTI. Example: A borrower purchased an automobile for their business. The business pays the loan however the loan is in the borrower's name. This debt must be included in the DTI.

d. Home Equity Line of Credit (HELOC)

- For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

- Subordination of HELOC loans is permitted up to maximum CLTV per matrix. The CLTV should be calculated using the full amount of any HELOCs (whether or not funds have been drawn).

e. Conversion of Departing Residence to Investment Property

If the current primary residence is being converted to an investment property, the following applies:

- The rental income from the departing residence may be used if the borrower has a loan to value of 75% or less, as evidenced by either:
    - A current residential appraisal (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - An Exterior Only appraisal (2055) (no more than 6 months old from application date) and outstanding liens as evidenced by a mortgage statement or credit report reference or;
    - An automated valuation model (AVM) listing the prior sales price minus outstanding liens as evidenced by a mortgage statement or credit reportreference. The AVM may not be used as a current valuation to determine the borrower's equity percentage.
- A 25% expense /vacancy deduction must be applied to all rental income. Copies of the signed lease are required.
- Reserves of six (6) months of PITI must be documented in addition to the required reserves for the primary residence.

IX. ASSETS AND SOURCE OF FUNDS

For information regarding assets and source of funds not addressed below, please contact your account executive.

a. Source of Funds

- The borrower must have sufficient liquid assets to meet the requirements for down payment, pre-paid items, closing costs and reserves.

- Funds needed for closing must be verified with copies of the most recent two (2) months bank statements including all pages.
- Large deposits, defined as a single deposit that exceeds 50% of the total monthly qualifying income, must be sourced. Large deposits that cannot be sourced may be subtracted from asset amount.
- Acceptable sources of verified funds include:
  - Bank deposits.
  - Stocks, stock options, bonds, and mutual funds. Stocks and bonds will be discounted at 70% of value for reserves.
  - Life Insurance surrender value if used for cash to close must be liquidated. If used for reserves no liquidation is required.
  - Sale of real property.
  - Sale of personal property with supporting documentation.
  - Disbursement from a Trust Fund.
  - Disbursement from an IRA/401K.
  - Disaster relief grants. Borrowers may use lump sum grant for down payment. No minimum contribution is required. Grant may not be used for closing costs or reserve requirements. Document that payment received is an actual grant and not a loan. Subordinate lien against the property is ineligible.
- Business funds can be used for down payment. Personal and business tax returns for the entity the funds are being withdrawn from and a year-to-date P&L and balance sheet are required. Business funds may not be counted toward cash reserves.
- A letter from an accountant verifying the following is also required:
  - The amount of business assets that can be used must correspond to the borrower's percentage of ownership in the business.
  - The funds are not a loan.
  - Withdrawal of the funds will not negatively impact the business.
- Gift funds are an acceptable source of funds as follows for primary residences and second homes with LTV/CLTV <= to 80% as follows:

  - Borrower must contribute at least 5% from their own funds.
  - Gift donor must be 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 or domestic partner.
  - Gift letter from donor that incudes name, address, telephone number and relationship to borrower.
  - Evidence of funds transfer and receipt prior to closing.
  - Gift funds are not allowed for investment property transactions.
  - Gift funds may not be used to pay off debt to qualify.

- Gifts of equity are not allowed to be used as a source of funds.

b. Cash Reserves

All loans require a minimum cash reserve. Please refer to the applicable product matrix for reserve requirements. Reserves must be verified and comprised of liquid assets that borrower can readily access. If a borrower owns multiple financed properties, the borrower also must have six (6) months cash reserves for each additional property. Equity lines of credit, gift funds, business assets, and cash-out from refinance transactions are not acceptable sources to meet the reserve requirement.

Vested funds from individual retirement accounts (IRA/SEP/Keogh/401K accounts) are acceptable sources of funds for reserves. If the retirement assets are in the form of stocks, bonds, or mutual funds, in order to be considered for reserves, the account must be discounted by 30% to account for market volatility.

X. PROPERTY

a. Eligible Property Types

- 1-4 units attached/detached owner-occupied properties.
- 1-unit second homes.
- 1-4 unit non-owner occupied properties.
- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage.

- Low/mid/high-rise new and established Fannie Mae or Freddie Mac warrantable condominiums.
    - Warrantable condominium types S and T.
    - Limited review is not eligible. All attached condominiums require full review. The conventional Condo and PUD warranty form must be used to warrant the condo project.
    - The project must be reviewed within the 3 months preceding the date of the Note.
    - New condominiums (type R). New condominiums may not be subject to additional phasing or annexation.
    - Minimum square footage 400.
- Planned Unit Development (PUD).

b. Ineligible Property Types

- Manufactured Homes.
- Factory built housing.
- Properties with income producing attributes.
- Condo hotel units.
- Log homes.
- Unwarrantable condominiums.
- Condominiums with HOA in litigation.
- Timeshare units.
- Geothermal homes.
- Unique properties.
- Mixed use properties.
- Working farms.
- Hobby farms.
- Commercial properties.
- Agriculturally zoned properties (agricultural/residential eligible).

- Rural zoned properties.
- Properties with an oil and gas lease.
- Properties with more than 20 acres.
- Properties held as leasehold.
- Properties located in Puerto Rico, Guam, and US Virgin Islands.

c. Declining Markets

Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser. Maximum 80% LTV/CLTV.

d. Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

e. Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a new appraisal needs to be performed. For new construction an appraisal update on form 1004D is required.
- Two (2) full appraisals are required for loan amounts > 1.5 million. Transferred appraisals are not acceptable. LTV will be based on lowerof the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals assigned from another lender are not acceptable.

f. Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase:

- If the property is in a zone where a Disaster End Date has been declared by FEMA, FundLoans will order a post disaster inspection prior to close to confirm the property value has not been impacted by the disaster. For FEMA declared natural disasters, the inspections must be dated after the disaster end date is declared by FEMA.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current known fire boundaries.

For scenarios not addressed in this section please contact your Account Executive for assistance.

XI. ADDITIONAL LOAN ATTRIBUTES AND POLICIES

a. Subordinate Financing

- New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.
- Maximum LTV/CLTV/HLTV for subordinated HELOCS will be based on the fully drawn balance.
- Subordination of an existing loan is permitted up to maximum LTV/CLTV allowed in the program matrix.
- Cash-out transactions are not eligible for subordination of existing liens.
- Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
- In cases in which a HELOC is resubordinated to the subject mortgage, monthly amount on credit report will be used. If no monthly payment amount is shown on credit report, 1% minimum payment of the maximum line amount will be used for qualifying. A credit report supplement showing the minimum monthly payment is also acceptable. If HELOC has a zero balance and no draws within 24 months of application, no payment need be included in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.

b. Chain of Title

- All transactions require a minimum twelve (12) month chain of title.

- For purchase transactions if seller has taken title to the subject property within ninety (90) days of the date of sales contract follow requirements in Section V(a).

c. Balloon Mortgages

- Loans may not feature a balloon payment.

d. Prepayment Penalty

- Prepayment penalties are not allowed.

e. Interested Party Contributions

- Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses. Interested party contributions exceeding the allowed amount per the applicable product matrix will be deducted from the sales price to determine LTV.

f. Hazard Insurance

- Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with apost-closing Closing Disclosure or the correction of the inception date on the hazard policy.

g. HERO/PACE/Solar Panels

- Any item that that will include a UCC associated with the property and/or will create an easement on title is ineligible.
- Payoff of a HERO lien is considered cash-out.

h. Escrows

- Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.
- All applicable loans must adhere to HFIAA regarding flood insurance escrows.

- Escrow holdbacks are not allowed.

XII. TITLE

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the amendments must provide the same coverage. The title insurance policy/commitment must be dated within 90 days and insure the exact loan amount.

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, Co-op share loans and ARM loan types.
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form).
- The title insurance policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Any existing tax or mechanic's liens must be paid in full through escrow.