FUNDLOANS

SPECTRUM NO RATIO

GUIDELINES

Effective 12-2-21 | V22.2

Contents

Programs

Programs: Overview

FundLoans guidelines are structured to fund investment quality non-owner-occupied loans that are designated solely as “business purpose loans”. All borrowers will be required to sign a Business Purpose and Occupancy Statement prior to funding declaring that the property is, or will be, for investment purpose only.

Debt Service Coverage Ratio (DSCR) is the Monthly Gross Rental Income divided by the PITIA (or ITIA for “Interest Only” loans) of the subject property. Examples of how to document and calculate Monthly Gross Rental Income and the DSCR are provided in these guidelines.

FundLoans will actively monitor, pre- and post-closing, for any loans that appear to violate our occupancy guidelines, especially an applicant seeking to leverage our DSCR program on a home intended as a Primary Residence or use funds from the DSCR for a personal use.

Loans eligible for sale to a Government Sponsored Entity (Federal National Mortgage Association (“Fannie Mae” or “FNMA”) or Federal Home Loan Mortgage Corporation (“Freddie Mac” or “FHLMC”) are not eligible for Fund Loans’ Spectrum: DSCR Prime program.

Programs: Eligible Products

FULLY AMORTIZING	TERM	QUALIFYING RATE
30 Year Fixed	360	Note Rate
5/6mo SOFR ARM (2/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate
7/6mo SOFR ARM (5/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate
Interest Only	TERM	QUALIFYING RATE
30 Year Fixed (10 Year I/O)	360	Full Amortizing PITIA over 20 years
40 Year Fixed (10 Year I/O)	480	Full Amortizing PITIA over 30 years
5/6mo SOFR ARM (2/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate Over 20 Years
5/6mo SOFR ARM 10 Year I/O(2/2/5 Cap Structure)	480	> Note Rate or Fully Indexed Rate Over 30 Years
7/6mo SOFR ARM (5/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate Over 20 Years
7/6mo SOFR ARM 10 Year I/O(5/2/5 Cap Structure)	480	> Note Rate or Fully Indexed Rate Over 30 Years

Programs: Loan Amounts / Prepayment Penalty

Spectrum: DSCR

- Minimum Loan Amount: $300,000
- Maximum Loan Amount: $15 MM

Standard 3 year prepay with option to buydown to a 2 year or a 1 year at additional cost.

Programs: Minimum FICO

Spectrum:

- DSCR 620 (Lowest Indicator Score of All Applicants)
- No Ratio 680 (Lowest Indicator Score of All Applicants)

Programs: Maximum LTV/CLTV

(See Matrices for LTV/CLTV maximums)

Programs: Interested Party Contributions (Seller Concessions)

The table below provides IPC limits for conventional mortgages.

IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

Max IPC for all CLTVs for Investment Loans is 2%.

Lender credit derived from premium pricing is not considered an IPC.

Programs: Escrow – Impound Accounts

Escrow funds/impound accounts are required to be established for all loans funded by FundLoans. Escrows may be established for funds collected by the lender, originator or servicer as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, ground rents, water, sewer, HOA Dues (if permitted by law), etc. For non-HPLM loans a waiver of impounds may be considered on a case-by-case basis for a price adjustment.

Programs: Secondary Financing

Secondary financing is not permitted without an exception granted by FundLoans

Programs: Statement of Occupancy

Applicants must re-confirm their intended use for the subject property ("Investment Property") by completing and signing the appropriate sections of the "Business Purpose and Occupancy Statement" found in the Appendix of these guidelines.

Programs: State and Federal High-Cost Loans

Loans meeting the State or Federal definitions of High-Cost Loans are not currently allowed by FundLoans

Programs: Assumability

Fixed Rate Notes – Are not assumable

Adjustable Rate Notes – May be assumable based upon the note (in general Fannie Mae Notes contain an assumable clause). In any case, the verbiage in the Note and Closing Disclosure must match

Programs: Property Insurance Coverage Requirements

Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Evidence of insurance must show a minimum of 90 days coverage remaining at the time of closing for refinances, 12 months coverage for purchases.

Extended coverage must include, at a minimum:

- Rent Loss (or equivalent to cover 6 months market rent)
- Wind
- Civil commotion (including riots)
- Smoke
- Hail, and
- Damages caused by aircraft, vehicle, or explosion.

Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement.

The insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis.

If it does not, then coverage that does provide the minimum required amount must be obtained.

ELIGIBLE TRANSACTIONS

Eligible Transactions: Ineligible Transactions

- Construction Loans (to be built with holdbacks)
- Texas Equity Loans
- Builder "Bailout" (Buying own inventory or Model Homes)
- Conversion Loans
- Subordinate Financing
- First Time Home Buyer (FTHB)

Eligible Transactions: Purchase Defined

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. Non-Arms Length transactions are not permitted.

Transactions where any borrower is directly or indirectly in title to a property at the time of application will not be underwritten as a purchase.

Eligible Transactions: Rate/Term Refinance Defined

Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property. At least one borrower in the proposed DSCR loan must currently be a title holder or must have a significant (> 20%) seasoned (greater than 6 months) interest in a legal entity that is the current title holder.

Proceeds from the transaction can be used to pay off any 1st mortgage lien that was not used in the acquisition of the subject property provided one of the following apply:

- At least 12 months of seasoning has occurred.
- No seasoning allowed if the first mortgage being paid off was acquired for any

one of the following reasons:

  - To recoup down payment/closing costs/prepaids on property (no financing obtained at time of purchase) and delayed financing guidelines followed
  - To buyout a co-owner/co-inheritor and below documentation provided
  - To buyout an ex-spouse per settlement agreement and payoff to ex-spouse reflected on final closing statement
  - To payoff land contract that was executed 12 months prior to current first.

- If a 1st Mortgage lien was not used in acquisition of the subject property and is less than 12 months seasoned, the closing disclosure from the prior financing should be supplied to determine if borrower took cash out from the prior transaction. If not, rate and term refinancing can be considered. If so, cash out guidelines should be applied.

Proceeds from the transaction can be used to pay off any subordinate mortgage lien that was 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.
- UCC liens (of any age) used specifically for home-improvement (Example: Purchase of Solar Panels, Energy Efficiency Upgrades, Swimming Pools)

Buying out a co-owner pursuant to an agreement with all current titleholders and obligors (payoff of co-owner portions of encumbrances and equity not considered "cash out"). These types of transactions are subject to the following:

- Notarized written agreement by all parties stating the terms of the property transfer
- Payment to any parties bought out during the transfer must be paid through the settlement
- If applicable, property must have cleared probate and property vested in applicants name (or entity) by closing

Refinancing the indebtedness on an investment property for a business purpose currently owned by a non-borrowing spouse, domestic partner or fiancé AND the borrower has lived at primary residence with the non-borrowing spouse, domestic partner or fiancé for the past 12 months and will continue to co-occupy primary residence is allowed on investment property business purpose transaction.

Paying off an installment land contract executed more than 12 months from the loan application date (Closing costs and prepaids can be added into loan amount if LTV/CLTV allows)

The following requirements apply:

- Copy of fully executed land contract and payoff(s) to be obtained
- Copies of canceled checks for past 12 months (or life of contract, if less than 12 months) as evidence of timely payments
- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a 12-month history
- All liens on title to be paid in full and reflected on settlement statement at closing
- If the contract was executed less than 12 months ago, the lesser of:
    - The loan amount / purchase price or
    - The loan amount / current appraised value must be used to determine LTV
- The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-Out and Non-arm's length transactions with non-family members not eligible.

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.

LTV/CLTV based upon the appraised value. Loans with loan amounts (inclusive of closing costs and prepaids) that do not exceed the original acquisition cost are acceptable at any time following the original acquisition.
EXAMPLE: Applicant wishes to refinance a private money mortgage used for the financing portion of a recent property acquisition and seeks a new permanent financing at improved terms or interest rates soon after the acquisition.

Eligible Transactions: Delayed Financing

Cash-out on properties purchased by the borrower with cash and owned less than 12 months is allowed.

The following requirements apply:

- The original transaction was an arm's-length transaction
- The settlement statement from the original purchase confirms that no mortgage financing was used to acquire subject property
- The source of funds used for the purchase can be documented/sourced/seasoned (gift funds may not be included)
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan
- Cash-out refinance eligibility requirements (see matrices) must be met (Price as a cash-out)

Eligible Transactions: Permanent Financing for New Construction

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing obtained by the borrower to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.

For Rate/Term refinances, the current appraised value can be used.

For Cash Out refinances, the LTV is based on the lesser of the current appraised value of the property or the total acquisition costs (sum of construction costs and purchase price of lot) if the date of lot acquisition (per grant deed) is < 12 months. When lot was acquired > 12 months ago, LTV is based on the current appraised value

Eligible Transactions: Cash Out Refinance Defined

Proceeds from the transaction are used for any refinance that does not meet the definition of a rate/term transaction. 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.

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. Utilizing the funds for personal, family, or household purposes is prohibited.

Loans not eligible for cash-out:

- Properties listed for sale in the past 6-months. (Exceptions for court-ordered listing, divorce scenarios, dissolutions of joint tenancy – see “Eligible Transactions: Cash Out Refinance Listing Seasoning”)
- Non-Arms Length and Interested Party Transactions (See guidelines below)

Cash-Out Seasoning is defined as the difference between application date of the new loan and prior financing note date or date of purchase:

- For properties owned 12-months or longer, the LTV/CLV is based upon the appraised value.
- If Cash-Out Seasoning is less than (12) months but greater than (6) months the transaction property value is limited to the lower of the current appraised value or the property’s purchase price + documented improvements.
- To be eligible for cash-out an applicant must have owned the property for a minimum of 3 months, otherwise cash-out LTV will be limited to the lesser 70% of the original cost or 70% Loan to Value.
- Cash out Seasoning of less than (6) months is not allowed when the prior transaction was also a cash out (Exception considered if original acquisition cost and down paymentis documented and sourced & LOE adequately explains the reason for “partial” cash outin prior refinancing).
- Cash-Out Seasoning of six (6) months or less is allowed with the following restrictions:

- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - At least one of the following must exist:
    - No mortgage financing was used to obtain the property
    - The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.).
    - The preliminary title search or report must confirm that there are no existing liens on the subject property or the existing lien being refinanced was taken out after the property was obtained as evidenced by a copy of the note.
    - The mortgage being refinanced was used to purchase the property and has an original term of 24 months or less as evidenced by a copy of the settlement statement and original note.
    - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect

that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

- The lender has documented that the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

Eligible Transactions: Cash-Out Refinance Listing Seasoning

For all cash-out refinances, properties previously listed for sale should be seasoned at least 6 months from the listing contract expiration date. On a case-by-case basis, FundLoans may shorten the seasoning period, at its discretion, when:

- Listing was required by court order (divorce decree, joint tenancy dissolution, etc) OR
- LTV% is at least 10% below maximums OR
- Property proceeds are used to buy-out the interests of co-beneficiaries (such as inherited property, dissolution of trust, etc)

If the proposed loan is structured with a prepayment penalty, FundLoans can consider properties listed for sale less than 6 months ago.

Eligible Transactions: Cash Out Refinance (Debt Consolidation)

Not allowed if any debts intended for payoff are personal debts (loan proceeds can only be for business use only)

Eligible Transactions: Ineligible Non-Arm's Length & Interested Party Transactions

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. 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 to bail out a family member who has had difficulties making their mortgage payment is not allowed. A thorough review of the payoff statement, property profiles and title report in these cases is required to search for evidence of derogatory payment history events, such as Late Charges, outstanding fee or penalty balances, Notices of Default or filings of Lis Pendens. FundLoans may request additional servicing data on the payment history of loans it is being asked to pay off.

Purchase between family members is not allowed on Spectrum: DSCR Prime program (Full Documentation only) or DSCR No Ratio.

A Conflict-Of-Interest Transaction can occur when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction. In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised.

For example, FundLoans won't allow the seller's real estate agent for the subject property to also act as the loan officer for the borrower(s) purchasing the same subject property. Employer to employee sales or transfers not allowed. Property trades between buyer and seller not allowed

An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties may be required

Eligible Transactions: Eligible Non-Arm's Length & Interested Party Transactions

Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction can be allowed. However, commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIA reserves.

Seller(s) representing themselves as agent in real estate transaction. For-Sale-By-Owner (FSBO) transactions must be arms-length.

Renter(s) purchasing from Landlord would not be allowed (due to occupancy conflict)

Eligible Transactions: Limitations on Financed Properties

No maximum of financed properties for investment property DSCR loans. However, each property held personally or in closely held legal entities must be:

- Listed on the REO Schedule of the 1003
- Must complete the following fields on the 1003 REO Schedule: Address, Status, Type, Value Estimate, Mortgage amount(s)
- Must list any REO mortgage balances in the 1003 Liabilities section
- Must verify a minimum 12 month payment history on each mortgage liability

FundLoans' exposure to a single borrower shall not exceed $15,000,000 in current UPB or six (6) properties.

All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property. Total reserve requirement is not to exceed twelve (12) months

Eligible Transactions: Continuity of Obligation (Refinances only)

At least one of the applicant(s) or members of a vested entity on the existing mortgage is also an applicant/member on the new refinance transaction secured by the subject property. When an existing mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:

- At least one applicant on the proposed refinance held title to the subject property for the most recent 6 month period and the mortgage file contains documentation the applicant has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 6-month period.
- At least one applicant on the proposed refinance inherited or was legally awarded the subject property by a court, in the case of a divorce, separation or dissolution of a domestic partnership.

Citizenship / Residency

Citizenship/Residency: Eligible Types

U.S. Citizens: Eligible without restrictions

Non-US Citizens:

This topic contains information on non–U.S. citizen borrower eligibility requirements.

Purchases and securitizes mortgages made to non–U.S. citizens who are lawful permanent or non-permanent residents of the United States under the same terms that are available to U.S. citizens. FundLoans not specify the precise documentation the lender must obtain to verify that a non–U.S. citizen borrower is legally present in the United States. FundLoans must make a determination of the non–U.S. citizen's status based on the circumstances of the individual case, using documentation it deems appropriate.

Citizenship/Residency: Ineligible Types

- Applicants possessing diplomatic immunity
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA)Excluded Party list or any other exclusionary list. Refer to Fannie Mae guidelines forall definitions of eligibility status.

Foreign National:

A Foreign National is a non-resident alien who is not authorized to live or work in the U.S or holds a work Visa that is indicative of a more temporary residency than those required to meet Non-Permanent

Resident Alien requirements. A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence.

Foreign National borrowers are eligible on Investment Homes only.

Foreign National Credit:

One (1) traditional or non-traditional credit line or reference required (i.e., bank reference, attorney reference, housing reference, etc.). The tradelines evidenced via credit reference letters must originate from verified financial institutions in the borrower's country of origin or documented work locations or the combination of both. Letter of reference must state the type and length of the relationship, how the account was held, the payment amount, outstanding balance, and status of account, including a minimum 12-month payment history. A single reference source may provide verification of multiple accounts. Individual account detail must be provided for each tradeline proposed. The letter must mention:

- Borrower (by name)
- Name, title & contact information of the person signing the letter, website if applicable.
- Currency must be converted to U.S. Dollars and signed and dated by certified translator.
- All documents must be translated into English by a certified third-party translation service. Must provide translation certification.

Foreign National Program Specific Documentation Requirements:

- A complete 1003 loan application is required on all loan files reflecting borrower's full name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code. Additional phone numbers to assist credit vendors in contacting the borrower, such as cell, land, or business should be obtained, and the Borrower Contact Consent Form may be utilized for this purpose.
- Copy of the borrower's valid and unexpired passport (including photograph)
- Copy of the borrower's valid and unexpired visa (including photograph) OR an 1-797 form with valid extension dates and 1-94. Borrowers from countries participating In the State Department's Visa Waiver Program (VWP)are not required to provide a valid visa. Participating countries can be found at https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html?_ga=2.125166415.450606013.1608130154-1471710111.1599835867. The credit
- If a non-U.S. citizen is borrowing with a U.S. citizen, Foreign National documentation requirements still apply.
- All parties involved on transaction must be screened through exclusionary lists, must be cleared through OFAC's SND list, search of Specially Designated Nationals & Blocked Persons List may be completed via US Department of Treasury: https://sanctionssearch.ofac.treas.gov/
- Borrowers from OFAC sanctioned countries are ineligible https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information
- Individuals with Diplomatic immunity not eligible http://www.state.gov/s/cpr/rls
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal.
- Power of Attorney (POA) is not allowed.

Assets: Assets Held in Foreign Accounts

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing unless held in a multi-national Banking institution that has active branch locations in the U.S. (EXAMPLES: Applicant has funds in Hong Kong branch of J.P Morgan Chase, or European branch of Credit Suisse)

Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, proper sourcing is required along with all documentation to comprise a sixty (60) day chain of funds.

All documents must be translated into English by a certified third-party translation service. Must provide translation certification.

Vesting: Vesting and Ownership

Acceptable forms of vesting are:

- Individual(s): as Tenants in Common or Joint Tenants (and like tenancies)
- Inter Vivos Revocable Trusts
- Business Entity (LLC, Ltd/Gen Partnerships, Corps, S-Corps)

Vesting: Individuals – Power of Attorney

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

- POA is specific to the transaction
- If not already recorded, POA is in recordable form and recorded with the Mortgage/Deed of Trust Contains an expiration date
- Used only to execute the final loan documents (Borrower represented by the POA shall have signed the initial 1003)
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as the Power of Attorney

Vesting: Inter Vivos Revocable Trust

NOTE: FundLoans allows title vesting in Revocable Trusts but does not base its lending decision on income or credit of the Trust. FundLoans only makes loans to individual borrowers, who may choose to have title vested in a Revocable Trust for their convenience.

An inter vivos revocable trust is permitted when the trust has an ownership interest in the subject property for all transaction types.

The trust must meet the following standards:

- 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.
- The trust must become effective during the lifetime of the person 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 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 have the power to hold the title and mortgage the property. This must be specified in the trust.

One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage. The following documentation is required:

- A complete copy of the trust documents certified by the borrower to be accurate, or a copy of the abstract or summary for jurisdictions that require a lender to review and relyon an abstract or summary of trust documents instead of the trust agreements can be provided in the loan file.
- Attorney's Opinion Letter (see Appendix of this guide) from the borrower's attorney or Certificate of Trust verifying all the following:
    - The trust is revocable,
    - The trust was validly created and is duly existing under applicable law,
    - The borrower is the settler of the trust and the beneficiary of the trust,
    - The trust assets may be used as collateral for a loan,
        - The trustee is:
            - Duly qualified under applicable law to serve as trustee,
            - The borrower,
            - The settler,
            - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets.

The Attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

NOTE: A Power of Attorney (POA) may not be used to execute loan documents on behalf of the Trustee/Borrower

Vesting: Business Entities (LLC, Corp, S-Corp, Partnership)

NOTE: FundLoans allows title vesting in business entities but does not base its lending decision on income or credit of the business entity. FundLoans only makes loans to individual applicant/borrowers, who may choose to have title vested in a business entity for their convenience.

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

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

- Business purpose and activities are limited to ownership and management of real estate
- Loans to be vested in the name of a Business Entity will be limited to a maximum of 4 individual applicant/members (aka members, partners, or shareholders) Any of the members that choose to become a borrower must complete a 1003. The loan application, credit report, income and assets for each applicant will be used to determine qualification and pricing.
- Each Entity owner must receive notice of the loan and its terms prior to closing
- All Business Entity owners must sign FundLoans' Limited Liability Company Borrowing Certificate acknowledging the Borrower(s) financing of the subject property.

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Tax Identification Number
- Certificate of Good Standing

No broker 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 owners of the Entity.

Documents must be completed and signed as follows:

- Business Purpose and Occupancy Affidavit – signed by each borrower
- Loan Application (1003):
    - Completed and signed by each Borrowing Member
    - 1003 section labeled "Title will be held in what Name(s)" should be completed with only the Entity name Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.) - completed and signed by each owner Guaranty - completed and signed by each owner (or 'Guarantor')

Closing Disclosure completed and signed by each borrowing member

Other Closing Documents (Final TIL, Business Purpose and Occupancy Affidavit, etc.) completed by each Borrowing Member

Vesting: Ineligible Vesting

- Irrevocable Trust
- Land Trust
- IRA's
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- First Time Homebuyers

INCOME

Income: Overview

The Spectrum program is based solely on the debt service coverage ratio (DSCR) of the investment subject property. There is no need to disclose employment information for any applicant and a verification of an applicant's income is not required.

The initial 1003 Loan Application requires the applicants to list all properties in their possession (rented & owned) via a complete residence history for the past two years and a partially completed Schedule of Real Estate Owned. Since the market rents and cash flows of the non-subject properties are not considered in a DSCR program, certain fields can be left blank, including: Gross Income, Payments, Taxes, Net Income. All other fields (Location/Market Value/Mortgage Amounts) should be completed at the time of the Initial 1003 and must be complete by the time of the Final 1003.

[NOTE: 3rd party vendor reports will be ordered to validate / identify "Properties Owned" for each applicant. It's important that all potential findings be disclosed initially].

Once sufficient documentation about the property's rental income, loan terms, real estate tax, hazard / flood insurance & HOA dues (if applicable) are obtained, a Debt Service Coverage Ratio will be determined.

Debt Service Coverage Ratio (DSCR) = Gross Rental Income* / Proposed PITIA** (or ITIA for an interest only product)

**Note: Qualification Rates vary between Fixed/ARM/Interest-Only product types.

*Determine Gross Income using one of the following methods:

- Lesser of (a) executed Lease Agreement or (b) 1007 Market Rent <u>OR</u>
- Long Term lease agreement (if greater than market rent) along with 3 month's proof receipt of rental income <u>OR</u>
- Short Term rental income (Airbnb, VRBO, Etc.) if greater than market rent with 12 months proof receipt of rental income. Only 75% of short-term rental income can be used as income (due to more frequent maintenance and potential vacancies)

When a DSCR > 1.00 is documented/ calculated for the subject property applicants can take advantage of expanded LTV's and improved pricing. DSCR "No Ratio" loans have stricter LTV and credit requirements (see Matrix).

When asset reserves are documented, even when not needed for cash to close, applicants may enjoy improved pricing.

Income: Gross Rental Income

<u>Subject Property Purchase:</u> Utilize the appraiser's opinion of market rent (1007) to determine rental income. No lease is required, however if a lease is in place (for example, a property subject to a current tenant in place) then utilize the lesser of the lease or the appraiser's opinion of market rent.

The property cannot serve as the borrower's primary residence (2-4 unit) or second home (IRS: more than 2 weeks personal use per year) to qualify as a "business purpose" loan

<u>Subject Property Refinance:</u>

- Lesser of (a) executed current Lease Agreement or appraiser's opinion of market rent.

If the home does not have a current lease, an appraiser's Opinion of Market Rent (1007) can be utilized if:

- A letter of explanation is provided, and the explanation is corroborated, as to why property was not in service as a rental in the past year, or not currently subject to a lease &
- Home is currently advertised for rent

- Current Long-Term Lease Agreement can be used if greater than market rent with 2 months proof receipt of rental income.

- Short Term rental income can be used if greater than market rent with 12 months proof receipt of rental income. Only 75% of short term rental income will be used as qualifying income due to greatly increased maintenance and cleaning expenses associated with "turning" short term rentals over to new prospective visitors.

Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income.

- On a purchase transaction, the appraiser's opinion of market rent may be utilized.
- On a refinance transaction, the rental income must be documented by a lease, and proof of receipt of most recent one month's rental income.

In all cases, the appraiser must be able to verify with the building department that the accessory unit is

a.) legal (per building code)/common to the area and

b.) may legally be rented (permissible use – zoning)

PROPERTY ELIGIBILITY

Property Eligibility: Appraisals

Full Interior / Exterior appraisal(s) are required.

FORM	PURPOSE
Uniform Residential Appraisal Report (Form 1004)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory apartment) based on interior and exterior property inspections.
Individual Condominium Unit Appraisal Report (Form 1073)	For appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.
Small Residential Income Property Appraisal Report(Form 1025)	For appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.
Appraisal Update and/or Completion Report (Form 1004D)	For appraisal updates and/or completion reports for all one- to four-unit appraisal reports.

Correspondents must order appraisals using one of two processes. The appraisal must either be ordered through an Appraisal Management Company that complies with Appraiser

Independence Requirements (AIR), or via the correspondent's own AIR compliant process.

Transferred appraisal is allowed as long as proof of AIR compliance has been met and satisfactory transfer letter from previous lender provided. FundLoans, at its discretion, can require additional appraisal products.

A licensed appraiser is required to perform an interior inspection when completing the appraisal report. The appraisal must be done within the 12 months that precede the date of the note and mortgage. When an appraisal report will be more than four months old on the date of the note and mortgage, 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 results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D). The appraisal update must occur within the four months that precede the date of the note and mortgage.

If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.

If the appraiser indicates on the Form 1004D that the property value has not declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.

Regardless of state, FundLoans policy is to require appraisals to include photos of both CO2 and Smoke detectors.

Property Eligibility: Exhibits for Appraisals

Exhibit	Requirements
Building sketch and calculations	An exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived. If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan sketch that includes the interior walls. For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable).
Street map	Showing the location of the subject property and the comparables that the appraiser used.
Exterior photographs	Clear, descriptive photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified. Acceptable photographs include original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files. Photographs of comparable rentals utilized in the *Small Income Residential Appraisal Report* (Form 1025) are not required.
Interior photographs	At a minimum, the report must include photographs of the following: the kitchen; all bathrooms; main living area; examples of physical deterioration, if present; and examples of recent updates, such as restoration, remodeling, and renovation, if present. **Note**: Interior photographs on proposed or under construction properties may be taken by the appraiser at the time of the inspection for the Certification of Completion, and provided with the Form 1004D.
Appraisal Update and/or Completion Report (Form 1004D)	At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.

Single-Family Comparable Rent Schedule (Form 1007)	Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See A3-4-02, Data Quality and Integrity.)

Property Eligibility: Collateral Desk Assessment

For each property with a proposed loan amount of less than $1.5MM FundLoans will order a Collateral Desk Assessment (CDA) to independently support the comparable property selection, adjustments to value and market value conclusions of the original appraiser. Additional supporting information may be requested of the original appraiser based on feedback from the CDA prior to final loan approval.

If the CDA reflects a value more than 10% below the appraised value or cannot provide a validation, a second appraisal will be required. The second appraisal must be from a different appraisal company than the first and a different appraiser than appears on the original appraisal.

Property Eligibility: Second Appraisal

A Second Appraisal will be required when:

- Loan Amount exceeds $1,500,000
- The transaction is a flip as defined in the Property Flipping section of this guide

*NOTE Second appraisal is NOT required if the following apply:

- Loan Amount 1,500,0001 to <$2MM, LTV is 50% or less, and Collateral Desk Assessment supports value within 10%

If a second appraisal is not provided from an approved FundLoans AMC then an AIR compliant appraisal maybe accepted on a case by case basis. FundLoans, at its discretion, can request an additional Appraisal Product.

When a second appraisal is provided, the transactions “Appraised Value” will be the lower of the two appraisals

Property Eligibility: Ineligible Properties

Properties not eligible for FundLoans funding:

1. Properties for which the appraisal indicates:
    - Condition ratings of C5 or C6
    - Quality ratings of Q5 (case-by-case basis) or Q6
2. Rural/Non-Conforming Properties (On a case-by-case basis only):

    [NOTE: FundLoans will consider a property despite being flagged as “Rural”, “Farm” or “Agricultural” Zoning if the property is a) less than 5 acres b) an SFR with no excessive outbuildings (example: Industrial / Warehouse type storage buildings, multiple homes or manufactured housing units, quasi-commercial improvements, silos and/or farm buildings not converted to residential use) and c) Located within a 45 -mile radius of the Central

Business District of a Top 40 Metropolitan Statistical Area as noted here: https://en.wikipedia.org/wiki/List_of_metropolitan_statistical_areas)

- Greater than 20 acres
- Properties w/ acreage and amenities that do not conform to the neighborhood norms
- Rated "Rural" or less than 40% Single-Family or area < 25% built-up
- 2 of first 3 Comps > 5 miles away from the subject property
- Sand and Gravel frontage road and lack of public water and sanitation
- Marketing Times in excess of 220 days with Single Digit sales per quarter

3. Properties with square footages below practical norms:
   - SFR: 700 Sq Ft
   - Condo Unit: 500 Sq Ft
   - 2-4 Family Living Unit: 400 Sq Ft per Unit

   [NOTE: Units that are functionally obsolescent due to lack of a traditional kitchen or enclosed bathroom are not acceptable]

4. Mixed Use Properties
5. Vacant Land (including blanket mortgages of residence on lot included with additionalbuildable vacant lots)
6. Agricultural properties that accommodate existing farms, ranches, orchards
7. Manufactured, Mobile or Modular Homes
8. Assisted Living Facilities
9. Properties with zoning violations (unless granted permissible use permit), non-building permitted additions without code compliance clearances. FundLoans will consider purchase if issue has been corrected prior to loan funding with proper documentation.
10. Geodesic dome homes
11. Houseboats
12. Log Homes / Log Cabins
13. Homes on Native lands (or any parcels with restrictions on reconveyance and/or limits on legal enforcement of foreclosure rights)
14. Properties in Lava Zones 1 or 2
15. Properties used for the cultivation, distribution, manufacture or sale of marijuana
16. Log Homes in "out of place" settings
17. Timeshares
18. Homes with mandatory Country Club Memberships
19. Co-ops (Cooperative Housing)

Property Eligibility: Escrow Holdbacks

FundLoans will not typically fund any loan with an escrow holdback unless a repair is projected to be very short term (completion 2-3 weeks after Note date). In those instances, bids for the proposed repair are required, 1 ½ times the cost must be held in a repair escrow fund to be held by the settlement agent until a Form 1004 D inspection confirms the completion of the work and any/all mechanics liens are satisfied.

Originator compensation will be held back until escrow release.

Otherwise, any repair or maintenance required by the appraiser must be completed prior to loan funding.

Property Eligibility: Location

(See FundLoans Website for current State Licensing)

Property Eligibility: Property Flipping

For properties acquired by the seller of the property within 6 months of the new contract date where the contract price exceeds the seller's acquisition price by the following:

- More than a 10% price increase if the seller acquired the property in the past 90 - days;
- More than a 20% price increase if the seller acquired the property in the past 91-180 days

The following additional requirements apply:

- Second appraisal required from a FundLoans Approved AMC, (The second appraisal must be provided to the borrower in accordance with either the ECOA or HPML requirements, whichever applies)
- Second appraisal must be dated/delivered prior to the loan consummation/note date
- Transaction must be an Arms-Length Transaction, marketed openly and fairly

through a multiple listing service, or other marketing means open to the general public

- No assignments of the sales contract are allowed for transactions falling under these property flipping parameters

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 actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.)

Property Eligibility: Leasehold Properties

In areas where leasehold estates are commonly accepted (as corroborated 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 lender's title policy. All lease rents, other payments, or assessments that have become due must be paid. The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

Seller must provide documentation and Leaseholds must meet all eligibility requirements below:

Lease and Lender Requirements	
	The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower.
	The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
	The lease must provide for the borrower to retain voting rights in any homeowners' association.
	The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
	The lease must be valid, in good standing, and in full force and effect in all respects.

	The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
	The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
	The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower, and the option to either cure the default or take over the borrower's rights under the lease.

Property Eligibility: Disaster Area Declarations

FundLoans and its Brokers share responsibility 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, as identified by reviewing the FEMA web site at: http://www.fema.gov/news/disasters.fema.

In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence should be used to determine if the disaster guidelines should be followed.

Appraisals Completed Prior to End of Disaster Declaration (Loans not yet funded): An interior and 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 from the previous inspection, and the marketability and value remain the same.

Inspection report must include photographs of the subject property and street view. Any damage must be repaired and re-inspected prior to funding.

Appraisals Completed After the End of Disaster Declaration (Loans not yet funded): Appraiser must comment on the adverse event and certify that there has been no effect on the Marketing Addendum data that could impact the valuation in the near future. Guidelines for disaster areas should be followed for 90-days from the disaster period end date or the date of the event, whichever is later.

Disaster Occurs After Loan Signing but Prior to Funding: Loan is ineligible for funding until the disaster is declared "ended" by FEMA and an inspection is obtained using one of the following options:

- A Post Disaster Inspection (PDI) Report from Clear Capital or
- The equivalent from another AMC vendor

Any indication of damage reflected on the report will require a re-inspection by the appraiser.

The appraiser may perform an inspection (Fannie Mae Form 1004D) and comment on the event and certify that there has been no change to the value.

Property Eligibility: Condominiums

Condominium Project Types Defined:

Project Type	Criteria
New condo project	A project for which one or more of the following is true: >Fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row below); Or >Project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo; >Project is newly converted; >Project is subject to additional phasing or annexation; or >HOA still in the developer's control.
Established condo project	A project for which all of the following are true: >At least 90% of the total units in the project have been conveyed to unit purchasers; >The project is 100% complete, including all units and common elements; >The project is not subject to additional phasing or annexation; and
	>Control of the HOA has been turned over to the unit owners. A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the project has achieved an 80% sold/closed ratio in 18 months or less since Occupancy Certificates were issued. The following requirements must be met: >Construction is 100% complete; >Project is not subject to any additional phasing or annexation, and the HOA is projected to be turned over to owners in less than 6 months >HOA fees are paid current in all non-developer-held units; and >No active or pending special assessments in the project Or >At least 75% of the total units in the project have been conveyed to unit purchasers and LTV is 50% or less
Detached (site) condo project	A project comprised solely of detached units

Requirements Applicable to All Condominiums:

- Requirements specific to the project review method used to determine that project's eligibility;
- Property eligibility requirements (described in Property Eligibility sections);
- Priority of common expense assessments (described below);
- When an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in Property Eligibility section); and
- Fannie Mae insurance requirements for Liability, Fidelity/Crime and Hazard Insurance Requirements for the HOA and the individual units

Priority of Common Expense Assessments

FundLoans allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae’s mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- The Uniform Condominium Act,
- The Uniform Common Interest Ownership Act, or
- A similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for funding by FundLoans.

If the condo or PUD project...	Then...
is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over FundLoans’ mortgage lien for a maximum amount greater than six months,	the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction’s law as of January 14, 2014, may have priority over FundLoans’ mortgage lien, provided that if the applicable jurisdiction’s law as of that date referenced an exception for FundLoans’ requirements, then no more than six months of regular common expense assessments may have priority over FundLoans’ mortgage lien.
is located in any other jurisdiction,	no more than 12 months of regular common expense assessments may have priority over Fannie Mae’s mortgage lien, even if applicable law provides for a longer priority period.

Condominium Review Types:

FundLoans follows FannieMae’s Review Types. Please refer to fanniemae single family guidelines for project review requirements.

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Ineligible Projects

- A project subject to the rules and regulations of the U.S. Securities Exchange Commission.
- Timeshare or Projects that restrict the owner’s ability to occupy the unit.
- New Condo conversion completed less than 2 years.
- Houseboat project
- Manufactured home projects
- Assisted living facilities or any project where unit owners’ contract in advance for a lifetime commitment from the facility to care for them regardless of future health or housing needs.
- Any project in which a single entity owns more than 25% of the total number of units (Projects that have 5-19 Units, one owner can own two units)
- Multi-family units where single deed has ownership of more than one or all of the units.
- Project where more than 50% of total square footage in the project or in the building that the project is located in is used for non-residential purposes
- Fragmented or segmented ownership (limited to a specific period on a recurring basis i.e., Timeshare)

- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA
- Non-conforming zoning (can't be rebuilt to current density).
- Project units sold with excessive Seller contributions that may affect the re-sale value of the subject property
- Any project that requires Private Transfer Fees as a part of the transaction and that fee does not benefit the association
- Project in litigation, arbitration, mediation or other dispute regarding safety, soundness or habitability. (FundLoans reserves the right to investigate all litigation prior to approval).
- Project with adverse environmental issue(s) involving safety, soundness or habitability.
- Projects that are not well managed or in poor physical or financial condition w/ obvious neglected repairs
- Projects with excessive special assessments (in excess of 200% of comparable projects dues/assessments combined)

Warrantable and Non-Warrantable Project Compliance Thresholds: Owner Occupied

Condo Review Tolerances	Single Entity Ownership	% Sold and Closed	% Of O/O and 2nd Homes	% Of Budget for Reserves	% Of Units with DQ Dues	% Of Commercial Space	
Detached (Site) Condo	N/A	N/A	N/A	N/A	N/A	N/A	
Less than 5 Units Total	N/A	N/A	N/A	N/A	N/A	N/A	
Warrantable (Established)	10%	90%*	50%	10%	10%	25%	
Non-Warrantable (Established/New)	25%	75%	50%	5%	15%	35%	60% Maximum LTV
Steamlined Review**	N/A	N/A	N/A	N/A	N/A	N/A	50% Maximum LTV

*New at 80% if only non-warrantable issue

**Insurance and Litigation review only

BUDGET AND RESERVE FUND BALANCE: A minimum of 10% of the association's annual budget should provide for funding of replacement reserves for capital expenditures and deferred maintenance. If not, a lower percentage of annual income may be considered if the appraisal notes no major repairs and Reserve Fund balance supports a lower allocation as follows:

- 7% to 9.99% requires a Reserve Fund balance of 50% of annual budget
- 5% to 6.99% requires a Reserve Fund balance of 75% of annual budget
- 3% to 4.99% requires a Reserve Fund balance of 100% of annual budget

CREDIT

Credit: Credit History

A borrower's credit history provides a strong measure of their intent to repay. Credit history is measured on the basis of credit depth, number of obligations, delinquency patterns, and demonstrated intent to repay.

An assessment of the borrower's capacity and willingness to pay financial obligations is a major factor used in determining a borrower's creditworthiness. A borrower(s) who has consistently utilized credit and paid it back timely in the past is likely to continue to do so in the future.

In a subjective evaluation of credit, many factors are considered when evaluating a borrower's credit history. The factors include:

- Credit repayment history
- Line utilization
- Proportion of balances versus limits on revolving accounts
- Patterns of debt pyramiding
- Recent inquiries and newly opened accounts
- Recent changes in the number of open accounts or overall amount of credit outstanding
- The number of open accounts and length of credit history
- Public record information

Borrowers that have experienced a significant derogatory credit event in the past may also be deemed to be creditworthy when sufficient documentation is provided to show that the event was isolated and likely to be non-recurring. Typically, a demonstration of compensating factors inother aspects of the file (Equity Position, Reserves, Property Marketability) help mitigate the potential credit risks.

Credit: US Citizens – Standard Tradelines

A Residential Mortgage Credit Report (RMCR) attempting to request information from all three credit bureaus is required for each borrower. At least 2 of the 3 credit bureaus must report information or the borrower must be treated as having a Non-Traditional Credit profile. The credit report should include the results of public record searches for each city where the individual has resided in the last 2 years.

<u>Standard Tradelines</u> - Each borrower must have:

- 3 tradelines w/ at least 12 months reviewed and activity reported in the past 12 months OR
- 2 tradelines w/ at least 24 months reviewed and activity reported in the past 12 months

<u>Valid tradelines have the below characteristics:</u>

- The credit line must be reflected on the borrower's credit report and may include self-reported utilities
- The account must have activity in the last 12 months but may be open or closed
- An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline (VOR with credit supplement and may come from either a private party or property management company).

Credit: US Citizens – Unacceptable Tradelines

Examples of unacceptable tradelines include:

- Loans in a deferment period (Student loans can be counted as tradelines as long as they are in repayment and are not deferred)
- Collection or charged-off accounts,
- Accounts discharged through bankruptcy, and
- Authorized user accounts (unless evidence is provided that 24 consecutive payments have been made by directly to the creditor by our borrower via cancelled checks/auto pay / ACH records)
- Foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales
- Any account currently 90 days late

Credit: US Citizens – Limited Tradelines

If Standard Tradelines requirements are not met and the borrower has a valid credit score per the Credit Score section of this guide the following restrictions apply:

- Minimum 1 open/active account for 24 months
- Max LTV/CLTV of 50%

Credit: Permanent Resident Alien

(Must meet one of the US Citizen options)

Credit: Ineligible Applicants

Ineligible applicants include:

- Irrevocable Trust
- Land Trust
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to a transaction listed on HUD's Limited Denial of
- Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.
- Business (FundLoans will vest in business name with Personal Guaranty only)

Credit: Social Security Number

A valid Social Security Number is required for all Borrowers with US Citizenship and Permanent Resident Aliens.

Credit: Age of Documentation

Credit Reports (and direct verifications of mortgage loans) and Asset Verifications (most recent of consecutive month's bank statements, account histories) should be no more than 90 days old at the date of the Note.

Other informational documents (divorce decree, LLC documents, etc) have no expiration date.

Credit: FICO Score Selection Methods

Credit: FICO Score Method

The lowest indicator score of all applicants is used as the Representative Credit Score for each loan. Select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. All applicants must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirical), and Equifax (Beacon). Only scores from these agencies are acceptable. Credit score codes should be consistent with tradeline information and use. Credit scores that do not appear to represent an accurate assessment of the borrower's credit risk will not be considered valid and usable.

A gap report is required and should be dated within 10 business days of the Note date.

Credit: Rapid Rescore

Rapid Rescores of credit are permitted to confirm the effect of pay down/ payoff of debt, the correction of reporting errors, the impact of additional months of payment rating/account aging. The updated credit scores will be used whether the score has improved or declined.

Credit: Accounts Not Appearing on Credit Reports

Housing payment accounts that are not verified on the credit report must be verified with either a written direct verification or an acceptable alternative.

- Private Mortgage Ratings :
    - Subject Mortgage - Cancelled Checks or month-by-month Servicing Ledger / Pay History
    - Non-Subject Mortgage: Written Verification of Loan
- Professional Rental Property Manager: Written Verification of Loan
- Property Owner Managed Rental:
    - For current residence – up to 12 months Cancelled Checks and Copy of Lease
        - If 12 months canceled checks cannot be provided, an Owner Managed Written Verification of Rent is allowed provided the following:
            - Minimum 660 credit score
            - LTV reduction of 5%
        -
    - For prior residence – Written Verification of Rent completed by Property Owner

Credit: Housing Expense

Housing and mortgage-related obligations include property taxes, premiums and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments.

The subject property must be fully documented with regard to housing obligations including:

- Mortgage balances and pay histories

- Property taxes
- Insurance premiums (Hazard , Flood, Earthquake, Lava Flow)
- Home Owners Association Dues and
- Charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments.

These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract.

Non-subject properties listed on the 1003 Schedule of Real Estate Owned should contain a complete data set, including: property address, type of property, estimated market value, total mortgage indebtedness (if any), monthly mortgage payments, real estate tax/hazard insurance/ HOA dues/ Flood Insurance and Miscellaneous Expenses, and estimated Cash Flow

Credit: Housing Payment History

Each housing related expense/loan must include a fully documented, recent, consecutive, 24 month housing history and a rental or mortgage housing payment history for a minimum of the 12 months leading up to the application date. On refinances, a mortgage / housing history is required on the subject property as well as the applicant's primary residence and any other properties the borrower owns.

1 times X 30 days overdue x12 months is the expected payment history on any mortgage/rent in the past 12 months for all borrowers combined for The Spectrum: DSCR PRIME program. (See matrices timing/seasoning of various credit "events"). For Spectrum: No Ratio the expected payment history in 0 x 30 days overdue x 24 months.

Housing late payments exceeding 1-time x 60 days overdue x 24 months require a letter of explanation from the borrower. The situation causing the late payment must be explained and must appear to the underwriter as isolated and non-recurring for The Spectrum program.

If a delinquency is explained, it must be adequately documented as isolated and non-recurring.

If there are multiple borrowers on the loan, only one of the borrowers must have a primary housing history.

If a property is owned free and clear and the applicant is current with real estate taxes, insurance and / or HOA dues, the mortgage/housing history will be treated as 0x30x24 for credit grade determination.

Credit: Verification of Mortgage

The following are acceptable for verifying mortgage payments:

- A current credit bureau report or credit supplement
- An institutional Verification of Mortgage (VOM)
- Images of canceled checks (front)
- Bank statements showing ACH transaction

For private mortgages see: Credit: Accounts Not Appearing on Credit Reports

A combination of mortgage and rent verification may be provided to complete a 12 month housing payment history. When borrower moved from rental to ownership a gap month is acceptable from the end of the rental period to the first payment due date, if applicable.

Credit: No (or incomplete) Housing History in last 12 months

Borrower(s) who own their primary residence free and clear aren't considered living rent free. Documentation of timely payment of Real Estate Tax and Hazard Insurance are sufficient evidence of timely 12 month (or 24 month) housing history payment.

Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:

- Minimum 12 months reserves after closing
- VOR/VOM must be obtained for all months available reflecting paid-as-agreed

If the borrower indicates that they are living rent free the following will be required:

- A signed letter from the owner/primary resident of the home must be provided verifying that the borrower is living rent free.
- The letter needs to indicate the relationship between the borrower and owner/primary resident and the reason why the borrower is living rent free at the home.
- Borrowers whose Bank statements show large regular monthly expenditures that do not match monthly payments on the credit report will be asked to provide images of checks to verify that the expenditures are not undisclosed housing related payments
- Typically LTV will be limited to 65% or the program maximum, whichever is lower and minimum FICO will be 720. Borrowers with no primary housing payment history are not eligible for Spectrum : No Ratio terms.

Borrowers who lack a primary mortgage/housing history or do not have a complete history as required by the program guidelines are eligible if the following is met:

- Borrower has a fully documented, recent, consecutive 12 or 24-month mortgage history, as required by program guidelines, on a separate personally held investment property.

Credit: Past Due Balloon Payment on Existing Mortgage

Balloon mortgages (for lenders other than FundLoans) on the subject property that have passed their due-in-full date while the borrower was seeking financing will not be considered a derogatory housing event if it can be shown that the borrower was actively seeking financing before the due date and the mortgage will be paid in full via the refinance within 180 days of the original maturity date of the balloon mortgage.

Credit: Significant Adverse Credit

Collection accounts, charge-off accounts, judgments, liens, delinquent property taxes, repossessions, accounts currently 90 days past due, and garnishments are considered to be major adverse credit. The allowance of adverse credit is restricted by program. All delinquent credit or liens that currently impact or may impact title must be paid off prior to or at closing. Title must insure FundLoans' lien position without exception. The following are examples of major adverse credit that may have an impact on title:

- Mechanics liens
- Delinquent property taxes
- Tax liens
- Tax payment plans
- Judgement liens
- Litigation liens

Charge-offs, collection accounts, or other major adverse credit items that do not impact title are not required to be paid off in some circumstances, see the specific credit sections for details.

Credit: Adverse Credit Seasoning

The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan unless otherwise noted.

Credit: Delinquent Credit of Ex-Spouse

Court ordered debts - A copy of the court order assigning the debt to another party is required.

Delinquent credit assigned to ex- spouse in a court order- can be excluded if disallowed credit events occurred after the divorce/separation, and divorce decree/separation agreement indicates derogatory accounts belong solely to the ex-spouse.

Credit: BK/FC/SS/DIL/Forbearance or Modification

For any credit/housing event below, superior pricing and LTV's require 4-year seasoning. Minimum 2-year seasoning required for reduced LTV's and additional LLPA's (see matrix and rate sheet for more information.) When under 4 years of seasoning, new 0x30x12 housing history needs to be reestablished.

Bankruptcy History

Recent bankruptcies are allowed, all bankruptcies must be settled at time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date.

All bankruptcies must be discharged or dismissed for the minimum number of months from closing date as shown on the Matrix. See Matrix for specific details.

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

Foreclosure Seasoning

Seasoning of a foreclosure is measured from the settlement date (final property transfer) to the note date.

Foreclosure must be seasoned for the minimum number of months from closing date (see Matrix for details).

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

Short Sale / Deed in Lieu Seasoning

Seasoning of a short sale or deed-in-lieu is measured from the settlement date (sale or final property transfer) to the note date.

Short sale or deed-in-lieu must be seasoned for the minimum number of months from closing date (see Matrix for details).

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

Forbearance or Modification

Forbearance or mortgage loan modification resulting in any of the attributes listed below is subject to Housing Event seasoning (see Matrix for details):

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

A letter or explanation from the borrower addressing the situation that made forbearance or modification necessary must be provided. The current housing payment history along with the new housing payment must be considered when determining if the situation is adequately resolved.

Credit: Unresolved Disputed Installment & Revolving Accounts

The following guidelines can be utilized to address disputed accounts:

- Account with zero balance and no derogatory information – no action required
- Account with a positive balance and no derogatory information – no action necessary
- Account with zero balance and derogatory information – LOE & pull new credit report to remove
- Account with a positive balance and derogatory information – LOE & pull new credit report to remove.

Note: A credit supplement is not allowed to document disputed accounts. A new report must be pulled

Every reasonable attempt should be made to resolve the dispute and obtain an updated credit report/FICO score.

Disputed accounts do not need to be removed under the following circumstances:

- Non-derogatory disputed accounts with zero balance.
- Disputed medical collections.
- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorizeduse.

To exclude these balances, a copy of the police report or other documentation from the creditor to support the status of the accounts.

When a disputed account(s) don’t fit the exclusions above, and cannot be resolved, a combination of factors should be taken into consideration when determining the borrower’s credit risk. It is expected that an underwriter will leverage the 4 C’s of Credit when determining an appropriate course of action including, but not limited to considering:

- Letters of Explanation A detailed letter of explanation from the borrower(s) should always be obtained when assessing disputed credit data.
- Patterns of Delinquency The overall pattern of delinquency must be taken into consideration when determining the willingness to repay in light any disputed account(s).
- Accounts Paid in Full If a disputed account has been paid in full it may be disregarded, unless evidence is present that the account was severely delinquent.
- Isolated Incident(s) A single dispute or pattern of disputed accounts may be disregarded if sufficient compensating factors are present.

Credit: Other Derogatory Credit

Isolated lates on small balance revolving accounts on an applicant’s credit report in the last 12 months need not be addressed if all installment and housing credit is paid as agreed. Patterns of installment and revolving 30 day lates (or any incidents of 60 days or greater late) must be acceptably explained via a letter of explanation by the applicant specifically addressing each delinquent account individually. Explanations should lead the underwriter to the conclusion that delinquent credit episodes are isolated and likely not to recur.

All mortgage accounts must be current at application and remain paid as agreed through closing.

However, mortgage accounts being paid via a refinance of the subject property that were current at the time of underwriting but are reflecting “late” on the mortgage payoff (no greater than 45 days from the last due date) due to delays in the closing will not be considered to be a derogatory housing payment event.

Balloon mortgages on the subject property that have passed their due-in-full date while the borrower was seeking financing will not be considered a derogatory housing event if it can be shown that the borrower was actively seeking financing before the due date and the mortgage will be paid in full via the refinance (up to 180 days beyond the due date)

Past due installment debts must be brought current before closing. Small balance revolving debts can be no more than 30 days past due at time of closing and can be left unpaid if the aggregate balance of all overdue revolving debt is less than $250.

If a short sale, deed in lieu of foreclosure, or foreclosure has occurred within the last 12 months, no more than a 1x30x6 is allowed on each revolving debt account and no more than a 1x30x12 is allowed on each installment debt account

Credit: Consumer Credit Counseling

Consumer Credit Counseling Services (CCCS) assist borrowers with financial management of debts in an attempt to avoid further delinquencies or possible bankruptcy. Generally, creditors agree to a reduced repayment under a consumer credit counseling plan.

For purposes of program grading, participation in a CCCS program will be treated similar to a Chapter 13 Bankruptcy. The date a CCCS was paid off will be considered the discharge date. If the borrower enters into CCCS and subsequently cancels, the seasoning is measured from the cancellation date.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

Credit: Public Records

All existing public records must be reviewed to ensure that are no outstanding judgements or liens against all borrowers. The public record search findings along with documentation to clear any alerts raised must be included in the loan file.

See the individual policies for Judgments, Tax Liens, Collections and Charges Offs for guidance on what accounts, if any, need to be paid by or at closing.

Credit: Judgments/Tax Liens

Any outstanding judgments or tax liens may remain open under the following conditions:

- Must be on a repayment agreement seasoned a minimum of 3 months
- Must document the most recent 12 months' payments (or payments-to-date if agreement has been in place less than 12 months) have been made in a timely manner
- Must include the payment in the DTI and
- For refinances, if the judgment or tax lien is recorded against the property it must be subordinated and the program's LTV/CLTV limits must be calculated with the subordinated lien considered

If the conditions above are not met, the judgment or tax lien must be paid off prior to or at closing.

Cash out proceeds may be utilized for this purpose

For tax liens, the title company must provide written confirmation confirming:

- the title company is aware of the outstanding tax lien, and
- (b) there is no impact to first lien position

Credit: Collections/Charge Offs

A 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge off date.

- Open adverse credit must generally be paid off prior to or at closing, however if an individual account balance is under $1,000 and the aggregate of accounts outstanding isunder $1,000 it may remain open.

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- All medical collections

Collection and charge-off balances exceeding the amounts listed above must be paid in full under any program.

Under all other programs, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition meeting all down payment/cash-to-close/required reserves); or

A combination of the two options above is allowed.

Credit: Medical Collections

Medical collections may remain open regardless of amount.

Credit: Past Due Installment Debt

Past due installment debts must be brought current before closing. Small balance revolving debts can be no more than 30 days past due at time of closing and can be left unpaid if the aggregate balance of all overdue revolving debt is less than $250

Credit: Lawsuits

If the application, title, or credit documents indicate that the borrower is involved in a lawsuit or litigation, additional documentation (e.g., attorney's explanation, copy of the complaint, and/or other supporting documentation) is required. The title company closing the loan must provide a letter stating affirmative coverage of subject lien position. Generally, lawsuits and pending litigation are not eligible under the FundLoans Program, but situations in which the lawsuit or pending litigation can be determined not to have a meaningful impact on the borrower's ability to repay the mortgage may be permitted.

The liabilities of all applicants must be accurately documented and considered in order to make a sound credit risk decision.

LIABILITIES

FundLoans follows FNMA Single Family Guidelines.

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ASSETS

Assets: Documentation Options

Various forms of documentation are acceptable depending on borrower asset type. Assets and reserves should be calculated and documented to Fannie Mae guidelines unless otherwise specified in FundLoans guidelines.

Assets: Large Deposits

When bank statements are used, large deposits must be evaluated. Large deposits are defined as any single deposit that represents more than 75% of the monthly average deposit balance. Large deposits need to be sourced.

An example of how to identify a large deposit follows:

- Month 1 deposits: $1,000, $1,500
- Month 2 deposits: $2,500, $5,000

Total deposits equal $10,000 or a monthly average of $5,000

75% of the monthly average is $3,750

The $5,000 deposit from month 2 needs to be sourced.

Assets: Asset Types

Depository Assets:

For depository assets (checking and savings accounts, money market funds, and certificates of deposit) FundLoans requires two consecutive monthly bank statements (60 days of account activity).

Monthly bank statements must be dated within 45 days of the initial loan application date.

Quarterly bank statements must be dated within 90 days of the initial loan application date, and the lender must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

Bridge Loan:

Bridge loans should also be considered in the Net Equity calculation for properties that are Pending Sale. (In other words, the amount of the bridge loan should be subtracted from the net proceeds to avoid counting this asset twice.)

Earnest Money Deposits:

Earnest Money must be documented and come from a sourced and seasoned bank account. Earnest Monies failing documentation standards can be resent from a sourced and seasoned account (with an overpayment of Earnest Money being refunded to the applicant following the transfer).

Gift Funds:

Gifts funds or gifts of equity are not allowed on DSCR Investment properties.

Non-borrowing spouse:

Funds from a non-borrowing spouse can be treated as applicant's own fund and is not considered a gift. Non-borrowing spouse funds in a sole account of his or hers can also be considered for reserves if the following is met:

- Borrower is currently married (not divorced/separated) from spouse
- Non-borrowing spouse has lived with borrower last 12 mos AND
- Certifies he or she will continue to live with borrower the next 12 mos
- Non-borrowing spouse is on title to subject property

Net Equity:

At time of Underwriting, net equity from properties pending sale can be estimated using the following formula:

((Present Market Value × 90%) – Amount of Mtgs. & Liens)

If a bridge loan is obtained, the amount of the bridge loan should be subtracted from the net proceeds.

A loan condition for the Settlement Statement will be required to be met by closing.

Secured Borrowed Funds:
Borrowers can borrow against an asset they own, such as a 401(k) account, real estate, or other asset of value. Loan should be an institutional loan or, in the case of real estate, a publicly recorded lien. Terms sheet or Note/Financing Agreement must be provided. Evidence of the proceeds check from the lender must be provided, as well as evidence of deposit to applicant's account.

Sale of an Asset:

Generally, a four-step process is required:

- Proving ownership of the asset
- Establishing the Value of the Asset
- Bill of Sale
- Evidence of receipt of funds and deposit of funds into applicant's documented bank statement

[Example: Sale of 1964 ½ Mustang: Provide Car Title in applicant's name; Kelly Blue Book or Car Appraiser's estimate; Sales agreement between applicant/seller and buyer; Image of buyer's check; deposit to applicant's account]

Assets: Assets Held in Retirement Accounts or Stocks/Bond/Mutual Funds

For Retirement accounts or Stocks/Bond/Mutual Funds, FundLoans requires two consecutive monthly bank statements (60 days of account activity).

Monthly bank statements must be dated within 45 days of the initial loan application date. Quarterly bank statements must be dated within 90 days of the initial loan application

date. Funds in these accounts may be used for down payment and reserves as follows:

- Stocks/Bond/Mutual Funds - 100% of stock accounts can be considered in the calculation of assets for closing and reserves;
- Vested Retirement Account funds – 80% may be considered for closing and/or reserves if borrower(s) have reached the age of 59 ½ or 70% if they have not at time of closing;

Any assets which produce income or are used as income already included in the income calculation are not eligible for use as down payment or reserves.

Assets: Use of Business Funds

Business funds may be used for down payment, closing costs and for the purposes of calculating reserves. The borrower must be listed as sole owner of the account, and the account needs to be verified per requirements of this Guide.

If Business funds are used, the borrower must be the sole proprietor or a minimum of 50% owner of the business. The Lender must determine that the withdrawal of funds will not have a negative impact on the business by obtaining confirmation from the applicant's tax preparer regarding the negligible effect of the withdrawal will have on the business or an estimate of the maximum withdrawal amount that could be taken without causing an adverse impact to the business.

Assets: Reserves

The FundLoans Flow programs include minimum reserve requirements as outlined on the FundLoans Product matrices.

Reserves must be sourced and documented. (See Assets: Asset Types)

Business Funds can be used for Reserves (See Assets: Use of Business Funds)

Proceeds from a cash-out refinance can be used to meet the minimum reserve requirements.

Proceeds from 1031 Exchange cannot be used to meet reserve requirements but can be used as a source of down payment on an investment property purchase.

All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property. Total reserve requirement is not to exceed twelve (12) months

Assets: Reserve Calculations

- Reserves for a loan with an Interest Only feature can be calculated based upon the Interest Only housing payment.
- Reserves for an ARM loan can be calculated based upon the initial PITIA, not the FIAR or qualifying payment.

Assets: Ineligible Assets for Reserves

Non-vested or restricted stock accounts are not eligible for reserves.

Assets: Assets Held in Foreign Accounts

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing unless held in a multi-national Banking institution that has active branch locations in the U.S. (EXAMPLES: Applicant has funds in Hong Kong branch of J.P Morgan Chase, or European branch of Credit Suisse)

Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds.

Program Exceptions

FundLoans will consider loans that meet a significant portion of key program parameters but may be slightly outside of the recommended LTV, FICO, DTI or Reserves so long as the file has significant strengths in the remaining key program parameters.

FundLoans will reserve the right to refuse to grant an exception, for any reason, but frequently grant exceptions based on the guidelines published below.

APPENDIX

Appendix: Occupancy Certification

EXHIBIT A: OCCUPANCY CERTIFICATION

Loan Number:

OCCUPANCY CERTIFICATION

I/ We the undersigned certify that:

_____ Primary Residence – I/ we will occupy the Property as my/ our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/ we executed. I/ We will continue to occupy the Property as my/ our principal residence for at least one year after the date of occupancy, unless Lender otherwise agrees in writing.

_____ Second Home – I/ we will occupy the Property as a second home (vacation, etc) while maintaining a principal residence elsewhere.

_____ Investment Property – I/ we will not occupy the Property as a principal residence or second home. I/ we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

INVESTMENT PROPERTY ONLY (the following must be completed on an investment property loan)

_____ I/ we understand that consumer protection laws applicable to consumer loans will not apply to this loan, including 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. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

REFINANCE ONLY (the following must be completed on a refinance transaction)

_____ I/ We the undersigned, certify that the property referenced above is NOT currently listed for sale or under contract to be listed for sale.

I/ We the undersigned acquired this property on ______________________________, __________.

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Lender to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower:	Date	Co-Borrower:	Date
Borrower	Date	Borrower	Date

Appendix: Ability to Repay Notice

EXHIBIT C: ABILITY-TO-REPAY BORROWER CONFIRMATION

Important Ability-to-Repay Notice

Date:____________________ Application No.: ____________________

This Important Ability-to-Repay Notice is being provided to each borrower prior to the signing of the loan documents, but after federal Truth in Lending disclosures have been provided.

In reviewing your credit application, [_] has considered and verified the following information as it relates to your ability to repay this loan according to its terms as required by applicable law: (1) your current and reasonably expected income and/or assets (other than the value of the dwelling and any attached real property); (2) your current employment status (to the extent that employment income is relied on to determine repayment ability); (3) the monthly payment for principal and interest on the loan; (4) the monthly payment on any simultaneous loan that [_] knows or has reason to know will be made; (5) the monthly payment for mortgage-related obligations (*e.g.*, property taxes, certain insurance premiums, fees and special assessments for condominiums, and homeowners association, ground rent, and leasehold payments); (6) your current debt obligations, alimony, and child support; (7) your monthly debt-to-income ratio and/or residual income; and (8) your credit history.

Below and in the attached Application Form (Uniform Residential Loan Application on Fannie Mae Form 1003) is the information that [_] has been used and considered in making this loan, as required by applicable law:

Employment and Income
Current Monthly Income:____________________ Current Monthly Income from Assets: ____________________

Housing Expenses
Principal and Interest Payment____________________
Real Estate Taxes____________________
Homeowner's Insurance____________________
Association Dues____________________
Other____________________
Total Housing Payment____________________

Debts
Installment and Revolving monthly debt payments____________________

Other Obligations (including alimony and child support payments) _________

Total Monthly Other Debts______________________

The information listed above and, in the Attachment, was provided by you in your application and interview, and/or in third-party records and other documents (such as credit reports and tax records). Based on its consideration of this information, [_] has made a reasonable and good faith determination that you have the reasonable ability to repay this loan according to its terms.

[_] wants to make sure that the information listed above is correct and complete. [_] is in the business of making loans and collecting loan payments—it has no desire to make a loan that cannot be repaid under the terms of the agreement.

By your signature(s) below, you are confirming that:

(1) You have read and understand this Important Ability-to-Repay Notice, and the information listed above is correct and complete;
(2) Your current or reasonably expected income or assets (other than the value of the dwelling and any attached real property) is/are consistent with the information listed above;
(3) Your current employment status is consistent with the information listed above and/or attached;
(4) Your current housing expenses, debts, and other obligations (including alimony and child support payments) are consistent with the information listed above;
(5) You have not applied for or opened any new credit accounts, defaulted on any credit accounts, filed for bankruptcy, or had any judgments entered against you by a court;
(6) You have not experienced any other changes from the time you signed or otherwise completed the information listed above and in the attached Uniform Residential Loan Application (Form 1003) that would reduce your reasonable ability to repay this loan according to its terms.

Borrower(s):

______________________________ ___/___/______ ______________________________ ___/___/______

(Signature) DATE (Signature) DATE

______________________________ ______________________________

Appendix: Condominium Project Warranty Certification

Condominium Project Warranty Certification

Project Name:	
Project Address:	
Phase	
Borrower Name:	
Subject Address:	
Lender Name:	
Loan Number:	

This certification represents and warrants that the above condominium project meets all eligibility requirements for sale as required by Fannie Mae.

The Lender representative certifies that they have completed a Full Condo Project review as outlined in the Fannie Mae guidelines section B4-2.2-02 Full Review including review of all required documentation for the project type.

Project type: ☐ Established ☐ New ☐ 2-4 unit

Project Documents reviewed include:

	Condo Questionnaire
	Current annual HOA/Project Budget
	Current Balance Sheet
	Evidence of Project Insurance
	Project legal documents as required by Project type

Lender certifies that it has retained all supporting documentation used to complete the review for this Warranty Certification. The Lender Representative certifies that all appropriate documentation has been examined and that the Representative and Lender warrant that the project meets all requirements set forth in the FannieMae guidelines for a Full Review.

____

Signature of Lender Representative certifying

____

Name of Lender Representative

____

Title of Lender Representative

____

Date of Certification:

Appendix: Condominium HOA Certification

Condominium Project Questionnaire – Full Form

Instructions

Lender: Complete the first table below and enter the date on which the form should be returned to you.

Homeowners' Association (HOA) or Management Company: This form has been sent to you on behalf of an individual seeking mortgage financing to purchase or refinance a unit in this project. The mortgage lender needs this information to determine the eligibility of the project for mortgage financing purposes. Complete and return this form by ________ (*enter date*) to the lender listed below. Questions about this form should be directed to the lender contact.

Lender Name		**Lender Phone Number**	
Contact Name		**Lender Fax Number**	
Lender Address		**Lender Email Address**	

I: Basic Project Information

1	Project Legal Name	
2	Project Physical Address	
3	HOA Management Address	
4	HOA Name *(if different from Project Legal Name)*	
5	HOA Tax ID #	
6	HOA Management Company Tax ID #	
7	Name of Master or Umbrella Association *(if applicable)*	
8	Does the project contain any of the following *(check all that apply)*:	
a	☐	Hotel/motel/resort activities, mandatory or voluntary rental- pooling arrangements, or other restrictions on the unit owner's ability to occupy the unit
b	☐	Deed or resale restrictions
c	☐	Manufactured homes
d	☐	Mandatory fee-based memberships for use of project amenities or services
e	☐	Non-incidental income from business operations
f	☐	Supportive or continuing care for seniors or for residents with disabilities

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Provide additional detail here, if applicable (*optional*):

II: Project Completion Information

1. Is the project 100% complete, including all construction or renovation of units, common elements, and shared amenities for all project phases? ☐ Yes ☐ No   If No, complete the table below:

		Yes	No
a	Is the project subject to additional phasing or annexation?	☐	☐
b	Is the project legally phased?	☐	☐
c	How many phases have been completed?		
d	How many total phases are legally planned for the project?		
e	How many total units are planned for the project?		
f	Are all planned amenities and common facilities fully complete?	☐	☐

2. Has the developer transferred control of the HOA to the unit owners?

☐ Yes, date transferred: ______ ☐ No, estimated date the transfer will occur: ______

III: Newly Converted or Rehabilitated Project Information

1. Is the project a conversion within the past 3 years of an existing structure that was used as an apartment, hotel/resort, retail or professional business, industrial or for other non-residential use? If Yes, complete the table below:

		Yes	No
a	In what year was the property built? ______		
b	In what year was the property converted? ______		
c	Was the conversion a full gut rehabilitation of the existing structure(s), including replacement of all major mechanical components?	☐	☐
d	Does the report from the licensed engineer indicate that the project is structurally sound, and that the condition and remaining useful life of the project's major components are sufficient?	☐	☐
e	Are all repairs affecting safety, soundness, and structural integrity complete?	☐	☐
f	Are replacement reserves allocated for all capital improvements?	☐	☐
g	Are the project's reserves sufficient to fund the improvements?	☐	☐

IV: Financial Information

1. How many unit owners are 60 or more days delinquent on common expense assessments? ____________

2. In the event a lender acquires a unit due to foreclosure or a deed-in-lieu of foreclosure, is the mortgagee responsible for paying delinquent common expense assessments? ☐ Yes ☐ No

If Yes, for how long is the mortgagee responsible for paying common expense assessments? (*select one*)

☐ 1 to 6 months ☐ 7 to 12 months ☐ more than 12 months

3. Is the HOA involved in any active or pending litigation? ☐ Yes ☐ No

If Yes, attach documentation regarding the litigation from the attorney or the HOA. Provide the attorney's name and contact information:

Name: ____________ Phone: ____________

V: Ownership & Other Information

1. Complete the following information concerning ownership of units:

	Entire Project	Subject Legal Phase (in which the unit is located) If Applicable
Total number of units		
Total number of units sold and closed		
Total number of units under bona-fide sales contracts		
Total number of units sold and closed or under contract to owner-occupants		
Total number of units sold and closed or under contract to second home owners		
Total number of units sold and closed or under contract to investor owners		
Total number of units being rented by developer, sponsor, or converter		
Total number of units owned by the HOA		

2. Complete the following table if more than one unit is owned by the same individual or entity.

Individual / Entity Name	Developer or Sponsor (Yes or No)	Number of Units Owned	Percentage Owned of Total Project Units	Number Leased at Market Rent	Number Leased under Rent Control
	☐ Yes ☐ No		%		
	☐ Yes ☐ No		%		
	☐ Yes ☐ No		%		
	☐ Yes ☐ No		%		

3. Do the unit owners have sole ownership interest in and the right to use the project amenities and common areas?
☐ Yes ☐ No

If No, explain who has ownership interest in and rights to use the project amenities and common areas:

4. Are any units in the project used for commercial or non-residential purposes? ☐ Yes ☐ No

If Yes, complete the following table:

Type of Commercial or Non-Residential Use	Name of Owner or Tenant	Number of Units	Square Footage	% Square Footage of Total Project Square Footage
				%
				%
				%
				%

5. What is the total square footage of commercial space in the building that is separate from the residential HOA? Include above and below grade space used for commercial purposes, such as public parking facilities, retail space, apartments, commercial offices, and so on.

Total square footage of commercial space

VI: Insurance Information & Financial Controls

1. Are units or common elements located in a flood zone? ☐ Yes ☐ No
   If Yes, flood coverage is in force equaling (***select only one option below***):
   - ☐ 100% replacement cost
   - ☐ maximum coverage per condominium available under the National Flood Insurance Program
   - ☐ some other amount (*enter amount here*) $_____________

2. Check all of the following that apply regarding HOA financial accounts:
   - ☐ HOA maintains separate accounts for operating and reserve funds.
   - ☐ Appropriate access controls are in place for each account.
   - ☐ The bank sends copies of monthly bank statements directly to the HOA.
   - ☐ Two members of the HOA Board of Directors are required to sign any check written on the reserve account.
   - ☐ The Management Company maintains separate records and bank accounts for each HOA that uses its services.
   - ☐ The Management Company does not have the authority to draw checks on, or transfer funds from, the reserve account of the HOA.

3. Supply the information requested below. Do NOT enter "contact agent."

Type of Insurance	Carrier/Agent Name	Carrier/Agent Phone Number	Policy Number
Hazard			
Liability			
Fidelity			
Flood			

VII: Contact Information

Name of Preparer	
Title of Preparer	
Preparer's Company Name	
Preparer's Phone	
Preparer's Email	
Preparer's Company Address	
Date Completed	

11-30-2021 Guidelines Updates

1. Removed Operations commentary

2. Removed outdated and/or documents not used from Appendix

3. Updated Interest Party Contributions Percentages (IPCs) to match FNMA

4. Foreign National borrowers are eligible for Investment only.

5. Condo Project Reviews
   Underwriters will follow FNMA Guidelines

6. Removed restrictions on VISAs for Non-US Citizens
   Underwriters will follow FNMA guidelines

7. Gap Reports will continue to be required at this time.

8. Updated Requirements for Closing in an Entity
   - One borrower must be at least a 20% owner of the business entity
   - All entity owners are not required to sign documents

9. Collections/Charge-offs do not need to be paid under $ 1,000
   Adverse Accounts under $ 1,000 or an aggregate of $ 1,000 may remain open