FUNDLOANS

APEX PRIME

BANK STATEMENT GUIDELINES

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Contents

Programs

Programs: Overview

FundLoans guidelines are structured to assist Brokers by making common sense lending decisions on loans to their borrowers who may have limited access to credit. These borrower's situations generally require us to consider alternative forms of documenting income and/or compensating factors which can offset repayment risk indicated by a recent credit event or elevated debt-to-income ratio.

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 the FundLoans Apex: Bank Statement 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

Apex: Bank Statement

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

Prepayment Penalty on investment properties only. Standard 3 year prepay on all investment loans with option for 2 year or 1 year prepay at additional cost.

Programs: Minimum FICO

Apex Prime: Bank Statement 620 (Indicator Score of Primary Earner)

Programs: Maximum LTV/CLTV

(See Matrices for LTV/CLTV maximums)

Programs: Interested Party Contributions (Seller Concessions)

Interested party contributions (IPC's) include any funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, affiliates, or any other party with an interest in the real estate transaction. All IPC's must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and must be compliant with Federal, State and local law.

- 4% Maximum (For LTV's greater than or equal to 80%)
- 6% Maximum (For LTV's less than 80%)
- 3% Maximum for Non-Owner Occupied
- Any amount in excess of these limits must be deducted from the Appraised Value and Sales Price before calculating LTV/CLTV.

IPC's may only be used for closing costs and prepaid expenses (classed as Financing Concessions) and may never be applied to any portion of the down payment or borrower's financial reserve requirements.

Programs: Escrow – Impound Accounts

Escrow funds/impound accounts are assumed to be established for all loans funded by FundLoans unless you specifically request a price with impounds waived. 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

Impounds maybe waived on case-by-case exception basis under the following circumstances:

- For loans determined not to be HPML (High Priced Mortgage Loans) an option to waive impounds can be considered for an adjustment to rate or costs.
- LTV 90% or less
- 620 minimum credit score

Programs: Secondary Financing

Secondary financing is limited to institutional Bank and Non-Bank Lenders (at FundLoans' discretion). Existing secondary financing must have a recorded subordination agreement or be paid in full at the time of a refinance. CLTV calculations must be calculated at the maximum available draw amount on HELOC's seconds, unless the applicant can provide documentation to prove the line of credit is past its draw period.

Programs: Loan Document Seasoning

Underwriting and borrower credit documents should have been no older than 90 days at the time of initial underwriting submission and no older than 120 days at the time of the Note

(exception for Verbal VOE's and Gap Credit Reports, which should be no older than 10 days prior to the Note. licensed/certified tax preparer confirmation of self-employment can be no older than 30 days prior to the Note.)

Programs: Statement of Occupancy

Applicants must re-confirm their intended use for the subject property ("Primary Residence", "Second Home" or "Investment Property") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Appendix of these guidelines.

Programs: Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner after closing, the broker is required to obtain a valid phone numbers, email addresses and mailing addresses for the borrower(s). The information can be collected using the Borrower Contact Consent Form (found in the Appendix to these Guidelines).

Programs: Ability to Repay / Qualified Mortgage Rule

FundLoans will only fund loans under the Apex: Bank Statement program that meet the CFPB's requirements under its Ability-to-Repay (ATR) / Qualified Mortgage Rule, including loans that meet the general ATR requirements and certain higher-priced qualified mortgage loans with rebuttable presumption liability protection, as prescribed by the applicable regulation.

Each loan delivered for funding must include a completed "Ability-To-Repay Borrower Confirmation" form (found in the Appendix to these Guidelines)

Programs: Alternative Loan Review / AUS

Manual underwriting is required for the Apex: Bank Statement programs. The Underwriting Approval, Income calculation worksheet (or evidence of calculation method in 1008 Transmittal Comments) and the Underwriter's determination of Ability to Repay is required as part of the credit file.

Loan amounts exceeding current Fannie Mae County Limits in which the property is located and using bank statements for income qualification are presumed to be GSE ineligible.

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: 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)
- LTV% is at least 10% below maximums

- Property proceeds are used to buy-out the interests of co-beneficiaries (such as inherited property, dissolution of trust, etc.)

Programs: Servicing Release Premium Re-Capture

Loans that pay off early, as defined in the Mortgage Loan Purchase Agreement will be subject to premium recapture.

Programs: Early Payment Default (EPD)

Early Payment Default (EPD), loans that become delinquent after the loan funding by FundLoans are subject to repurchase by the Broker pursuant to the EPD language in the Mortgage Loan Purchase Agreement.

Programs: Legal Documentation

Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan approval and closing documentation. In the case when Fannie Mae doesn't offer current documentation, such as interest only products, a document vendor, such as Doc Magic or Ellie Mae can be utilized for forms.

Programs: Interest Credit

Loans closed within the first 5-days of the month can reflect interest credit to the borrower.

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.

Extended coverage must include, at a minimum:

- 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: 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.

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. The property's current appraised value may be used to determine the Loan To Value at any time after initial acquisition so long as cash out is limited to rate/term standards.

Any subordinate loan not used in the acquisition of the subject property may be paid with loan proceeds 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.
- 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").
- Refinancing the indebtedness on a property owned by a non-borrowing spouse, domestic partner or fiancé' AND the borrower has lived with the non-borrowing spouse, domestic partner or fiancé' for the past 12 months and will continue to co-occupy is allowed.

- 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)

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: 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 letter explaining the use of loan proceeds required when the cash out exceeds $250,000. (See Matrices for cash-out limits).

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)
- Non-Arm's 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:

Refinancing the indebtedness on a property owned by a non-borrowing spouse, domestic partner or fiancé AND the borrower has lived with the non-borrowing spouse, domestic partner or fiancé for the past 12 months and will continue to co-occupy is allowed.

Below seasoning requirements is acceptable for cash out transactions.

- 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.
- Cash out Seasoning of less than (6) months is not allowed when the prior transaction was also a cash out (as determined by the final Closing Disclosure or Settlement Statement)
- 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 (Debt Consolidation)

Cash out transactions meeting the following additional requirements may be eligible for enhanced LTV's or pricing based on R/T refi LTV/CLTVs capped at 80%:

- Primary Residence only
- Mortgage and non-mortgage debts are paid off and total monthly debt payments are lowered by at least 10%
- Closing costs are recouped within 60-months
- Cash in hand may not exceed $5,000 or 2% of the loan balance

The closing documents must reflect the paid off debts. IRS liens that are not yet on a repayment plan but are being paid as part of a debt consolidation refinance can be assumed to have a monthly payment of 1% of the outstanding balance per month, for the purposes of calculating the 10% per month lowering of total monthly debt payments.

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.

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 PITIAA reserves.

If your relative (or donor that meets FNMA eligible donor definition) is your real estate agent but no other party to the transaction (builder, developer, broker, seller, etc) this is also acceptable; however, the gift must be sourced and received prior to close and commission for the transaction cannot be used for gift.

Seller(s) representing themselves as agent in real estate transaction are allowed.

A current tenant purchasing the property from a Landlord where he/she has rented for at least the last six (6) months immediately predating the sales contract is considered an Arm's Length Transaction. Housing payment history must be provided in accordance with Credit: Housing Payment History (mortgage/housing payment history for a minimum of the 12 months leading up to the application date) and documented pursuant to the methods under Credit: Accounts Not Appearing on Credit Reports. A Tenant that has rented from the Landlord less than six (6) months prior to the sales contract may only document the Housing Payment History to the selling Landlord by providing cancelled checks.

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

- Primary Residences only

- Borrower to provide cancelled check verifying the earnest money deposit
- Maximum LTV/CLTV: 80%
- For-Sale-By-Owner (FSBO) transactions must be arms-length*Does not apply to family sales

Eligible Transactions: Non-Occupant Co-Borrowers

Non-occupant co-borrowers are credit applicants who do not occupy the subject property as a principal residence. Non occupant co-borrowers must meet the following requirements:

- Do not occupy the subject property as a principal residence
- Must be an immediate relative, relationship letter is required
- Must sign the mortgage or deed of trust
- Must not have an interest in the property sales transaction, such as the property seller, builder or real estate broker

Program Restrictions:

- Primary Residence Only
- Cash-Out not permitted
- Blended ratios allowed up to 80% max LTV/CLTV on Apex Prime
- For LTV's > 80% on Apex Prime the Occupying borrower's DTI cannot exceed 60% DTI

Eligible Transactions: First Time Homebuyers

The following requirements are intended to apply to FTHB transactions for borrowers that have never owned real estate and does not apply to:

a) A borrower that has previously owned (over 3 years ago) or
b) A borrower who does not own a primary residence but owns other properties, such as a second home or investment property
c) If any occupying borrower meets the requirements in option a or b, the file is not to be deemed a FTHB

For a FTHB who has never owned real estate previously:

- Limited to primary residence only
- Minimum 660 credit score
- DTI may not exceed 45%
- 12-month rental history required reflecting 0x30. Rental history is not required for borrowers living rent free (See the Housing History section of this guide for restrictions on borrowers living rent free)
- Payment shock limit 350%

Eligible Transactions: Limitations on Financed Properties

Maximum of twenty (20) financed properties including subject loan presented for FundLoans loan funding.

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

Citizenship / Residency

Citizenship/Residency: Eligible Types

U.S. Citizens: Eligible without restrictions

Permanent Resident Aliens: Eligible without guideline restrictions

Defined: An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United Acceptable evidence of permanent residency include the following:

- Alien Registration Receipt Card I-151 (referred to as a green card).
- Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
- Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditionsNon-expired foreign passport
- Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."

Non-Permanent Resident Alien: - Eligible without guideline restrictions

Non-permanent residents of the United States, as defined by the INS, are eligible borrowers on loans purchased by FundLoans.

o Identification Requirements:

- Non-US Citizens must provide non-expired official identification to confirm and document the applicant's immigration status
- Documentation must include:
  - Identification type and number
  - Place of issuance
  - Issue and expiration dates

Evidence of employment in the US including a USCIS Employment Authorization Document

(EAD)(I-766) Or; An unexpired non-immigrant visa stamp with an entry.
The following Visas are acceptable:

- E Series
- G Series
- H Series
- L Series
- O Series

Foreign National:

Not Allowed

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 for all definitions of eligibility status.

Vesting

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

Individual borrower(s) and non-borrowing title holders must be screened through any exclusionary list(s) used by FundLoans, and must also be cleared through OFAC's SDN list.

Individuals form OFAC sanctioned countries are ineligible. Individuals with diplomatic immunity are not eligible (due to the inability for a loan servicer to compel payment or seek judgment).

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 rely on 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 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 borrower/members (aka members, partners, or shareholders) Any of the members that choose to become a borrower must complete a l003. The loan application, credit report, income and assets for each owner will be used to determine qualification and pricing.
- Each Entity owner must receive notice of the loan and its terms prior to closing
- 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 owner (both submission and closing)
- 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 owner

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

- EXAMPLES - SIGNATURE REQUIREMENTS:

[Authorized Signatory] may be replaced by another label as specified in the Member Consent (e.g. Managing Member, Member, etc.).

SAMPLE 1: Borrower: JJ Investors, LLC and James Johnson Single Member of LLC: James Johnson

Note, Security Instrument & all Riders:

- Signature Block JJ INVESTORS, LLC a [ ] limited liability company James Johnson By: James Johnson Title: [Authorized Signatory]

SAMPLE 2: Borrower: JJ Investors, LLC, James Johnson, and Jane Nelson 2 Members of LLC: James Johnson and Jane Nelson Both Members are Authorized Signatories of LLC

Note, Security Instrument & all Riders:

- Signature Block JJ INVESTORS, LLC] limited liability company a [James Johnson, By: James Johnson Title: [Authorized Signatory] and JJ INVESTORS, LLC] limited liability company a [Jane Nelson By: Jane Nelson Title: [Authorized Signatory]

Vesting: Ineligible Vesting

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

INCOME

Income: Overview

The Apex Bank Statement program is available to self-employed borrowers and allows the use of 24 or 12 months of bank statements to document self-employment income. Some income calculation methods allow even fewer bank statements when accompanied by licensed/certified tax preparer-prepared P&L's/Balance Sheets. (See "Income: Allowable Bank Statement Income Methods")

Income documented through the Bank Statement method may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as a spouse employed as a wage earner.

When wage income is combined with the Bank Statement, a tax return is not required for the wage income documentation, as this would invalidate use of the bank statement program. A signed 4506T is required, however, Box 8 would be checked to obtain a transcript of W-2 earnings and a Record of Accounts, versus requesting 1040's or any of the various business tax returns.

Apex Bank Statement loans will be considered Non-QM products.

Income: Bank Statements - Description

In order to be eligible for the Bank Statements product, at least one applicant on the file must derive their primary income source from a self-employed activity. Because rental incomes for residential and commercial properties are calculated on an adjusted cash flow basis they are not considered as self-employment for the purposes of this loan program.

Self-employment is traditionally defined as a business reported on Schedule C or ownership interest in of 25% or greater in an LLC, S Corp or Corporation. However, bank statement income methods can be leveraged with borrowers with an ownership interest as low as 20%.

Applicants generally must have been self-employed for at least two years. Applicants self-employed 1-2 years can be eligible provided they were in the previous line of work for 2 years prior to commencing self-employment as well as a positive income trend.

Co-applicants who are not self-employed may provide supplemental income from other income sources, including salaried wages, so long as these income sources can be adequately documented without tax returns that have been filed jointly with applicant.

Proof of existence of the business(es) must be verified prior to closing and will be reverified by FundLoans prior to purchase. A letter from the licensed/certified tax preparer addressed to a correspondent (or To Whom it May Concern), it is acceptable provided the information on the letter is re-verified either verbally or in writing by FundLoans prior to purchase. The reverification shall be good for 120 days prior to Note date.

In addition, a generic internet search of the business name and location must be performed to replicate how prospective customers might locate/contact the business.

Depending on which type of bank statements are being provided, 12 or 24 months and/or business, co-mingled or personal, the borrower may need to source/document large deposits as income based on the following:

- For Business or co-mingled bank statements any individual eligible deposit that is > 75% of 12- or 24-month monthly average*
- For Personal bank statements any individual eligible deposit that is > 50% of 12- or 24-month monthly average*
- For Business or Personal bank statements, deposits of any size that give the appearance of non-income related deposits. This frequently includes "round dollar" deposits that sometimes indicate deposits of loan proceeds, line of credit advances, capital investments or funds transfers.

*Example: Gross deposits over 12 mo period = 120k/12 = 10k; therefore, any individual eligible deposit > than 10k to be sourced/documented

**Example: Recurring deposit of $5000 that is inconsistent with the typical price point of the service or product offered

Income: Age of Business / Verifying Existence

Borrower(s) must be self-employed for at least 24 months (see exceptions above) and the existence of the business must be verified through one of the following methods:

- A letter from either a business tax professional, <u>or</u>
- licensed/certified tax preparer certifying self-employment and the existence of the business; <u>or</u>
- Acknowledgement from Regulatory agency or licensing bureau (Website or Direct Verification)

In addition, a phone listing and business address verification using directory assistance, or an internet search is required, to replicate how customers could search out the firm.

If any borrower is no longer employed in the line of work or position disclosed on the Form 1003 at the proposed funding date, FundLoans Is not obligated to fund the loan.

Income: Minimum Business Ownership Percentages

- 20% or greater *: Personal Bank Statement Option (12 or 24 months)
- 50% or greater: Commingled Bank Statements Option (12 or 24 months)
- 50% or greater: Business Bank Statements Option (12 or 24 months)

  *Self-employment percentages smaller than 20% considered on a case-by-case basis (example doctor, lawyer, accountant with minority ownership in large Professional Organization, clinic, firm)

Income: Acceptable Income Doc Types

Acceptable income documentation types and calculation methods are as follows:

- Bank Statements – 2 Month, 3 Month, 12 Month & 24 Month
- 12 Month licensed/certified tax preparer Prepared Profit & Loss

Income: Allowable Bank Statement/Alt Doc Income Methods

<u>Method 1: Personal Accounts (12 or 24 Months)</u>

- Provide most recent 12 or 24 months of personal bank statements and most recent 2 months of business bank statements (from which transfers to personal account are occurring)
- Income equals all deposits attributable to direct transfers of net income from borrower's business account. (NOTE: Direct deposits of gross business revenue may indicate the account is a Commingled Account or Business Bank Statement, versus a solely personal account.) Exclude all non-business deposits. Source unusual deposits or deposits greater than 50% of the average gross deposits.

<u>Method 2: Co-Mingled Business and Personal Accounts</u> (Single account reflecting both personal and business income and expenses)

- Provide most recent 12 or 24 months of personal bank statements
- Income equals all deposits attributable to business income.
- Expense Documentation Options – Must utilize one of the methods under the business account analysis listed below

<u>Method 3: Business Account – 12 or 24 Month licensed/certified tax preparer P&L plus 3 months Business Bank Statements</u>

- Provide 12 or 24 month (or greater) P & L compiled and signed by a icensed/certified tax preparer (w/ evidence of State certification) through the time of the last of 3 consecutive business bank statements. For convenience, 2 year-end P&L's and year-to-date can be submitted.
- Income equals 12 or 24+ month average net income shown on P & L.
- Total allowable deposits from the business bank statements must be no more or no less than 10% of the average monthly gross revenues reflected on the P & L's. (NOTE: in the event that the 10% tolerance is not met for a given month, additional consecutive banks statements can be added to the analysis until the tolerance is met)
- A business narrative describing the business model (type of product/service); client base; price points and typical payment methods; types of overhead expense; number of employees; equipment and location expenses

<u>Method 4: Business Account - 12 or 24 Month Accountant/Cert Tax Preparer P&L plus 12 (or 24) months Business Bank Statements</u>

- Provide 12 month or 24 month (or greater) P & L compiled and signed by an Accountant or Certified Tax Preparer (w/ evidence of State certification or Professional Registry) through the time of the last of 3 consecutive business bank statements. For convenience, 1 year-end P&L's and year-to-date can be submitted.
- Income equals 12+ month average (or 24+ month average) net income shown on P & L.
- Total allowable deposits from the business bank statements must be no more or no less than 10% of the average monthly gross revenues reflected on the P & L's.
- A business narrative describing the business model (type of product/service); client base; price points and typical payment methods; types of overhead expense; number of employees; equipment and location expenses

Method 5: P&L Only – 12 or 24 month P&L by Accountant/Cert Tax Preparer (w/evidence of state certification or professional registry)

- Provide evidence business was organized/licensed/active for the past 24 months or more
- Provide financials signed by the Accountant/Cert Tax Preparer based on the following.

P&L's / Loan Type	12 Month P&L	24 Month P&L
Past Prior Year	No	Yes
Prior Year	Yes	Yes
YTD	Yes	Yes

- Provide a letter from the Accountant/Cert tax Preparer on their business letterhead showing their business address, phone number, license, or certification number, and addressing the following:
    - Restating the borrower's name, the business name, and the borrower's percentage of ownership
    - A certification that the Accountant/Cert Tax Preparer has prepared (or reviewed) the 2 most recent business tax return filings for the business(es) listed
- A business narrative from the borrower describing the business model (type of product/service); client base; price points for typical service or product purchase transaction; type of overhead expense; number of employees; equipment and location expenses

Method 6: licensed/certified tax preparer Expense Ratio

- Provide licensed/certified tax preparer letter with an assessment of the non-discretionary business overhead expense ratio (expressed as a percentage of gross business income) and 12 (or 24) months business bank statements. licensed/certified tax preparer letter should also address borrower's percentage of ownership & number of years business has been in existence
- Income equals 12+ month average (or 24+ month average) net income derived by applying the expense ratio to the gross revenues

- Bank statement withdrawals will be analyzed to assure that recurring withdrawals are appropriately accounted for in the expense ratio
- A business narrative describing the business model (type of product/service); client base; price points and typical payment methods; types of overhead expense; number of employees; equipment and location expenses

Method 7: Variable Expense Ratio

- Provide licensed/certified tax preparer letter addressing borrower's percentage of ownership & number of years business has been in existence AND 12 (or 24) months of business bank statements
- Income equals 12+ month average (or 24+ month average) net income derived by applying the appropriate expense ratio to the gross revenues from among the following:
  - Service business
    - 0 employees 20% expense ratio
    - 1-5 employees 40% expense ratio
    - 5 or more employees 50% expense ratio
  - Product business
    - 0 or more employees 50% expense ratio

- Bank statement withdrawals will be analyzed to assure that recurring withdrawals are appropriately accounted for in the expense ratio. Bank statements where withdrawals (other than to Borrower's personal account) outpace the 50% expense ratio may cause the loan to be referred to another income method
- A business narrative describing the business model (type of product/service); client base; price points and typical payment methods; types of overhead expense; number of employees; equipment and location expenses

Income: Bank Statements – Alternatives to licensed/certified tax preparer/ Exhibits

Deposits less Withdrawals

Review the business' deposits less withdrawals to determine an applicant's income. Sum the net income over the 12-month period provided, multiply by applicant's pro-rata ownership percentage, and divide by 12. Transfers to an applicant's personal account do not need to be considered a deduction for calculation purposes. The resulting income should be reasonable to the applicant's line of work.

Income: Bank Statement Loan Income Analysis

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

Personal Bank Statement review: Income should be calculated based on a 24- or 12-month average of total deposits minus any inconsistent deposits not justified. Pattern of deposits and payment should be consistent; ATM deposits may be included if a consistent pattern of such deposits is present (or sample deposits are sourced) Changes in deposit patterns must be considered and explained. Income documented separately but comingled must be backed out of allowable deposits. Recurring large withdrawals should be consistent with total obligations on the 1003, or suitably explained. Two month's Business Bank Statements must be provided to evidence activity to support business operations and reflect net transfers to the personal account.

Business and Commingled Bank Statement review: The FundLoans Business Bank Statement calculator is available for download from the FundLoans web site. All non-business deposits should be excluded, and net allowable deposits should support the gross revenues on the P & L (if applicable). Recurring monthly expenses should be consistent with line-item P & L expenses (if applicable) or consistent with the expense ratio used (if applicable).

12 Month or 24 Month P&L Statement : The sales reflected on the 24-month licensed/certified tax preparer prepared P&L should be supported by the 3-months of business bank statements. The average deposits from the bank statements must be greater than or within 10% of the average monthly gross revenue. In the event the 10% tolerance is not met, continuous bank statements may be added to the analysis until the tolerance is met.

Business Narrative: The underwriter analysis of the business and P&L will require a basic understanding of the borrower's business. A narrative provided by the borrower should be reviewed to determine if the business provides a service or produces/manufactures goods. If the business has a web site, it should be reviewed to gain additional information on the business and its size. The goal of the analysis is to determine if the individual/total expenses as provided by the borrower on the P&L appear reasonable for the type of business. The items to consider in this analysis:

- Description of business from narrative
- Location of business – Home based or lease space (Google address)
- Utilities – Phone, electric, internet
- Number of employees or contractors – employee taxes, payroll expense
- Cost of Goods Sold – What type of materials does the business use or manufacture
- Vehicles and equipment required
- Typical price point of product or service
- Typical customer payment methods/frequency
- Type of customer (retail, commercial) and
- Size of customer base.

Business Expense Statement Letter: The expense ratio should be consistent with the type and size of the business based on a narrative provided in the file. The narrative should address the type of product or service offered, location of business and whether space is leased or owned, number of employees, vehicles and equipment required, typical price point of product or service, typical customer payment methods/frequency, type (retail, commercial) and size of customer base.

Income: Income Worksheet

The loan file should include an Income worksheet detailing income calculations. Income analysis for borrowers with multiple businesses must show income/ (loss) details separately, not in aggregate.

Income: Stability of Income

Stable monthly income is the Borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three years. The Broker must determine that both the source and the amount of the income are stable

When analyzing borrower earnings, year over year earnings trends must be incorporated into the borrower's income calculation.

YTD income amount must be compared to prior years' earnings using the bank statement deposit trends.

- Stable or increasing: Income amount should be averaged
- Declining but stable: If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used;
- Declining: If trend is declining, the income is not eligible.

Income: Residual Income

Residual Income is the amount of gross monthly income remaining once a borrower has paid all monthly debt obligations. Residual Income = Gross Monthly Income minus total monthly debt. Minimum Residual Income Requirements are calculated using the table below plus $250 for the first dependent and $125 for each additional dependent.$3000 / month.

Income: Bank Statements -Non-Sufficient Funds (NSFs)

Non-Sufficient Funds (NSF) is a term used to indicate that a demand for payment (a check) cannot be honored because insufficient funds are available in the account on which the instrument was drawn. In simplified terms, a check has been presented for clearance, but the amount written on the check exceeds the available balance in the account.

An NSF will be counted against the applicant when a check the applicant's business wrote causes the applicant's account to be overdrawn.

An NSF can be ignored when overdrafts are covered by a business line of credit or other business checking account so long as the overdraft accounts are sufficient to cover the expense. NSF's due to checks written by the business that exceed the account balance, as well as the overdraft account balance will count due to the lack of business liquidity.

Returned check situations that cause NSFs will be considered separately. Returned checks that do not result in a negative balance are not considered NSFs. (Example: Customers of business allowed to pay by checks which are not honored and then returned. If the applicant's business is charged an NSF fee, but had sufficient funds to prevent the account from being overdrawn, the NSF can be ignored.)

More than 4 NSF's in a 12-month period or 8 in a 24-month period could cause a loan to be ineligible for purchase unless it can be shown that the NSF's represent an insignificant percentage of monthly deposits.

EXAMPLE: Business Account that receives $50,000 / month in income deposits and NSF checks are $1000 or less.

Exception requests for tolerance deviations must include:

- A letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and
- Additional compensating factors outlined by the underwriter supporting the viability of income. Underwriter must consider the financial strength of a self-employed borrower's business.
- A re-established pattern of proper account management of at least 3 months since the last NSF

Income: Bank Statements - 1099 Contractor

1099 Documentation: 1099s may be obtained to replace 1 or 2 calendar years of co-mingled or business bank statements.

The 1099s must be validated with a wage and income transcript from the IRS. Evidence of year-to-date earnings via YTD bank statements required for months 4-12 as applicable.

1099 Self-employed borrowers should be self-employed for at least 2 years. However, borrowers' that have converted from W2 to 1099 for the same employer can be considered with following possible scenarios:

	Past Prior Year	Prior Year	This Year
Time As 1099	Doc	Doc	Doc
< 12 months	W2	W2 and/or 1099	YTD Bank Stmts
> 12 mos < 24	W2 and/or 1099	W2 and/or 1099	YTD Bank Stmts
> 24 months	W2 and/or 1099	1099	YTD Bank Stmts

For co-mingled or business bank statements, calculation will be the lower of the following:

- Income on business method chosen below:
  - 90% of 1099 gross income and YTD bank statement income averaged over total number of applicable months
  - Net income derived from one of the bank statement methods
  - Letter from single employer being used for 1099 income confirming borrower has no job-related expenses.

All other Co-mingled or Business Bank Statement Program requirements apply.

Income: Bank Statements - Service & Tip Industry

Due to the cash nature of the service and tip industry, applicant may participate in the Bank Statements program. Employment must be verified through traditional means. Base salary deposits should be segregated from cash deposits of tips. Individual deposits of cash tips must be regular (daily/ weekly/monthly) and should be realistic for the type of service provided. Tip deposits will be averaged over time and added to the 1008 as a separate line item from the base wages. Neither a P&L nor a business license is required.

Income: Bank Statements – Acceptable Variance Levels

In the event that 24 months of bank statements are utilized to determine the applicant's income, variances year over year are likely to occur. If the deposit trend is increasing or stable, no additional review is required.

If the eligible deposits decline greater that 5% up to 10% year over year, it should be addressed. If the decline of deposits is greater than 10% year over year then the account may be ineligible for use in the income calculation. The deposit trend is measured by calculating the percent change from year one (months 13-24 on the worksheet, previous year) to year two (months 1-12 on the worksheet, most recent year). Eligible deposits from year one should be subtracted from year two, and the difference divided by year one's eligible deposits to determine the change.

For example, if year one eligible deposits are $100,000 and year two eligible deposits are $80,000, the percent change would be a 20% decline ($80,000/$100,000) = 20%

A declining deposit trend should be underwritten as follows:

1. If the eligible deposits declined year over year by less than 5%, utilize a 24-month average

2. If the eligible deposits declined by greater than 5% up to 10% year over year, utilize a 12-month average of the most recent year's eligible deposits.

In the event the applicant is utilizing method 2 to qualify, a revised P&L should be provided covering only the most recent 12-month period and used for determining the applicant's income.

The applicant must provide a written explanation for a decline >5% in year over year eligible deposits. The explanation must address the reason for the decline and whether or not this decline has stabilized

Income: Bank Statements -Co-Applicant Income

Full documentation from a co-applicant who is not self-employed may be used to supplement bank statement income. See full documentation guidelines for additional information on acceptable sources and requirements. Taxable income is counted on a "gross" amount regardless of the net deposit shown on bank statements. Deposits resulting from these income sources should be deducted from the bank statement analysis. Non-Taxable income may be grossed up by 25%.

Income: Asset Allowance - Overview

Asset Allowance differ from Asset Distribution (See "Income: Other Income Types – Distributions from Retirement Accounts") because Asset Distributions are income distributions already set in place by the borrower via written agreement with the asset manager and can electively pay out faster than the time frames dictated by Asset Allowance, so long as continuance is confirmed for a minimum of 3 years.

The Asset Allowance option permits an underwriter to use an applicant's liquid assets to augment income for loan and product qualification purposes without creating a written distribution agreement, so long as the allowance given meet an 60-month continuance test. When using Asset Allowance, the combination of income from liquid sources, such as: self-employment; rental income, retirement funds; allowance or distributions from liquid assets should be enough to meet total minimum monthly obligations

Income: Asset Allowance (Supplement) – Qualifying Methods

Asset Allowance: Qualifying income derived by using the Total Assets Eligible for Depletion (minus down payment minus out of pocket closing costs minus required reserves) divided by60 months. Maximum DTI 43% when dividing total obligation by income from all sources.

Income: Asset Allowance - Description

Applicants may utilize asset allowances as additional qualifying income. Assets based on the following stated percentages of present values (listed below) may be divided by 60 months. To determine assets that can be amortized, deduct funds to close, closing costs/pre-paids, and reserves required by the product requirement. Gifted funds from an allowable source (see Full Doc Assets Section) may not be included in the amounts being amortized unless seasoned 90 days prior to the date of application.

Qualifying balances are determined as follows.

- Checking/savings: 100%
- Marketable securities (no options or unvested RSUs): 100%
- Retirement funds-70% of accessible funds unless if applicant is of retirement age, then use 80% of accessible funds. If utilizing retirement account, document applicant's ability to access the funds.
- Bitcoin – can use 50% up to a max of 50% of required assets. For example, if required assets is $1,000,000, only 500,000k may come from Bitcoin. The remaining $500k has to come from first three bullet points.

Income: Asset Allowance - Restrictions

- Non-occupant co-borrowers not allowed.
- Max 43% DTI;
- Minimum 620 credit score.

(See Matrices for acceptable credit grades, max LTV and DTI)

Income: Asset Allowance – Documentation

All individuals listed on the asset account(s) must be on the Note and Mortgage. Assets considered for this program must be verified with most recent 3 months of account statements or a VOD. Assets must be seasoned 120 days

Income: Asset Allowance – Ineligible Assets

- Privately traded or restricted/non-vested stocks;
- Any asset which produces income already included in the income calculation.

Income: Income History & Continuance

The income of each applicant who will be obligated for the mortgage debt must be analyzed to determine whether his/her income (from all sources) can be reasonably expected to continue through at least the first three years of the mortgage loan. Each source of income should have a minimum 2-year history and a minimum 3-year likelihood of continuance.

Guaranteed sources of income, such as annuities, pensions, social security retirement benefits need not have a history if the award letter is provided and the first payment will begin on or before the date of the first mortgage payment.

Income: Stability, Increasing & Declining Income

All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue for a minimum of three years.

Increases in income can be immediately considered in the case of salaried incomes where a recent raise is evident (or co-applicant has been notified of a raise that will be in place on or before the first payment date) that can be verified by FundLoans. Increases or decreases in income for self-employed see Income: Bank Statements – Acceptable Variance Levels section of guidelines.

Any income that has significantly declined (greater than 20%) from the (monthly or quarterly) averages in the earlier portions of the time period considered (12 Months or 24 Months) must have re-stabilized during the most recent 6 months and the amount of qualifying income will be limited to the new lower pace. An explanation for the decline must be provided that supports the assumption that no further declines in income are anticipated.

In no case can an income source be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the first three years of the loan. Co-applicants whose employers indicate that an income source will end in 3 years or less, due to retirement or layoff, must be qualified on sources other than the income source in question.

Income: Salaried Co-Applicants

For purposes of this section, salaried co-applicants are defined as those who earn wages that are reported on IRS W2 forms at year end and for which income taxes are withheld on regular paychecks. [If Co-Applicant is also self-employed or has rental income tax returns cannot be supplied or this may disqualify loan for bank statement loan qualification; therefore, Co-Applicant who is also self-employed may also qualify with one of the bank statement methods and rental income can be used following rental income section of guidelines.]

- <u>Employment History & Stability Requirements</u>: Co-Applicants must generally have a two-year history in their line of work. If a co-applicant has less than 2 years' experience in their line of work, vocational or military training or education in the same field is considered an acceptable substitute (documentation of training or schooling should be provided). A co-applicant that has been in a line of work less than 2 years but has had at least one documentable wage increase or favorable performance review is also acceptable.

  Gaps of employment greater than 30 days must be explained in writing by the applicant. Gaps of employment greater than 6 months require an explanation from the applicant and a minimum two-year history in the line of work prior to the gap documented. Job changes within the same line of work are not considered adverse factors so long as income is stable or increasing and gaps are addressed.

A co-applicant starting with a new employer during the application process can be considered if a written offer letter confirming the name of the employer, the start date, the position, the rate of pay is provided (and subsequently confirmed). The co-applicant must start the position prior to closing and FundLoans' Verbal VOE must successfully confirm the start date.

- 24 mo Full Doc - Minimum Documentation Requirements: The following documentation must be present in the file to make a determination of a salaried applicant's income
    - Standard Verification
        - Current Paystubs w/ withholding info as follows:
            - 1 if paid monthly
            - 2 consecutive if paid bi-weekly or semi-monthly
            - 4 consecutive if paid weekly
        - For employment that includes variable hours or pay one of the following is required:
            - 2 Previous years ending paystubs and/or
            - Written Verification of Employment will be needed for the analysis of all pay including overtime, bonus, commission etc.
        - W-2 and/or 1099 for the most recent 2 tax years. For 1099 borrower 2 years tax returns maybe waived and wage-earner documentation requirements are followed when all of the following requirements are met:
            - 1099s for the most recent 2 years are provided
            - 1099s are from the same single employer for the past 2 years.
            - 1099s are validated with a wage and income transcript from the IRS
            - Year-to-date earnings are verified via a YTD paystub, written VOE or other equivalent third-party documentation
            - Documentation is obtained from employer confirming borrower has no job-related expenses (Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position; however, documentation still must be obtained from the employer confirming the borrower has no job-related expenses.
        - Verbal VOE (dated within 10 days of closing)
        - W-2 and/or 1099 transcript, if available. In all cases, a transcript will be required after June 30th of the current year. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained to satisfactorily address.
        - In the case where the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file.

- <u>12 mo Full Doc - Minimum Documentation Requirements</u>: The following documentation must be present in the file to make a determination of a salaried applicant's income
  - Standard Verification
    - Current Paystubs w/ withholding info as follows:
      - 1 if paid monthly
      - 2 consecutive if paid bi-weekly or semi-monthly
      - 4 consecutive if paid weekly
    - For employment that includes variable hours or pay one of the following is required:
      - Previous year ending paystub and/or
      - Written Verification of Employment will be needed for the analysis of all pay including overtime, bonus, commission etc.
    - W-2 and/or 1099 for the most recent 1 tax years. For 1099 borrower 1 years tax returns maybe waived and wage-earner documentation requirements are followed when all of the following requirements are met:
      - 1099s for the most recent tax year is provided
      - 1099s are from the same single employer for the past 1 year.
      - 1099s are validated with a wage and income transcript from the IRS
      - Year-to-date earnings are verified via a YTD paystub, written VOE or other equivalent third-party documentation
      - Documentation is obtained from employer confirming borrower has no job-related expenses (Note: 1099 forms covering a full 1-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position; however, documentation still must be obtained from the employer confirming the borrower has no job-related expenses.
    - Verbal VOE (dated within 10 days of closing)
    - W-2 and/or 1099 transcript, if available. In all cases, a transcript will be required after June 30th of the current year. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained to satisfactorily address.
    - In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file.

- <u>Documentation Age Requirements for 12 or 24 month full doc</u>: The Paystubs and / or Written VOE's should be no greater than 90 days at time of initial underwriting, and no greater than 120 days at time of closing. Verbal VOE's should be no greater than 10 days prior to the signing date of the [Note. Verbal VOE's dated after the signing date of the Note are acceptable, if needed for any reason.]

Income: Bonus Income

Generally, a co- applicant must have a two-year history of bonus income (or past year & year-to-date for 12-month income program) from the same employer in order to consider the bonus as part of the qualifying income.

If a co-applicant who switched jobs within the same line of work, had received bonus income from the prior employer and has received at least one bonus from their current employer bonus income may be considered for qualifying income provided the applicant can document a likelihood of continuance of bonus income at the new employer.

Income: Overtime Income

Overtime income can be used to qualify the co-applicant if he/she has received this income for the past two years, and it will likely continue. If an employment verification states that the overtime income is unlikely to continue, it may not be used in qualifying. Develop an average of overtime income for the past two years with year-end paystubs and year-to-date on 24 Month programs and use a prior year-end paystub and year-to-date information on a 12 Month program.

To take advantage of raises to hourly compensation, if the employer confirms the number of overtime hours logged for the employee in the preceding 2 years & year-to-date, the underwriter can develop an average number of overtime hours multiplied by the current hourly rate for overtime earnings, so long as the number of hours each year is stable or increasing.

Income: Commission Income

To include commission income as qualifying income the co-applicant must have a consecutive, and most recent two-year history in the same field and the commission income must be determined and calculated separately from base wages for the two-year period.

Co-Applicants whose commission income was received for more than one full calendar year, but less than two years, may be considered favorably if the likelihood of continuance can be documented in the file. Commission income earned for less than one year is not considered qualifying income and will be treated as a compensating factor only.

[NOTE: Exceptions may be made for situations in which the applicant's compensation was changed from salary to commission within a similar position with the same employer.]

Commission income may fluctuate from year to year and therefore, an average of the last two years of income should be used in qualifying the co- applicant. Develop an average of commission income from the past two years year-end paystub and year-to-date paystub information on 24 Month programs and use a prior year-end paystub and year-to-date information on a 12 Month program. (Written VOE's can be used, in lieu of year-end paystubs if the VOE's are consistent with W2 earnings information).

Annual earnings should be level or increasing from one year to the next. If the trend for the commission earnings shows a decline of 20% or more year-over-year, an explanation must be provided by the co-applicant and it may be disqualified from consideration.

Income: Restricted Stock Units

Restricted stock units are shares offered by a co-applicant's employer to a co-applicant as an additional form of compensation. The shares typically vest over a period of time (Typically a portion immediately, and additional percentages in subsequent quarters or years). Once vested the applicant may then liquidate them at any time.

A schedule showing the date of each stock award, the number of shares, the market value on the date of the award, the percentage vested immediately, and the schedule of subsequent vesting's should be provided (Example: April 1st, 20xx: 100 Shares: $50/share: 25% Vested immediately; 25% vested each subsequent year)

Restricted stock units are acceptable as a form of income provided the following:

- 1-year history of liquidation proceeds (or restrict income contribution to asset utilization method of vested awards only if not liquidated)
- Vesting of 2 consecutive annual awards OR
- Vesting of 4 consecutive semi-annual awards OR
- Vesting of 8 consecutive quarterly awards

Income: Stock Options

Corporate stock options are frequently used by an employer as an incentive to attract new hires or to compensate employees with a more direct interest in the success of the company. Stock options may be utilized as income if a two-year history of vesting and 1-year of exercise of the stock options and subsequent liquidation deposits into bank statements can be documented.

Income: Partial Year Paid Applicants

Certain co-applicants (such as teachers or forest fire fighters) may be paid for only part of the year. The underwriter must ensure that the monthly qualifying income calculation incorporates this partial-year employment. To determine a partial year paid applicant's qualifying income, the monthly salary is multiplied by the number of months the co-applicant is paid and divided by 12.

Income: Part-time or Second-job Income

For qualifying purposes, "part-time" income refers to employment taken to supplement the co-applicant's income from regular employment. Part-time employment is not a primary job and it is generally worked less than 40 hours.

Part-time and seasonal income can be used to qualify the co-applicant if it is documented that the co-applicant has worked the part-time job consistently for the past two years and plans to continue. If the co-applicant can demonstrate a continuous 2 year history of full-time primary employment with the same employer (or in the same field) in addition to a 2 year history of part-time secondary employment with one or more employers both sources of income can be considered for qualifying purposes if at least a 2 year history of stable or increasing income can be documented for both income sources.

[Example: Co-Applicant has held full-time primary employment as a bookkeeper for the past 24 months: 14 months for Employer A, the past 10 months for Employer B – with no gaps in employment greater than 30 days. Co-Applicant has also had a 24-month history of part-time cosmetic sales, first as a Schedule C employee with a multi-level marketing firm, then as a W2 employee with a retail department store chain.]

Part-time income received for less than two years may be used as a compensating factor only and may not be used in qualifying.

Income: Gratuities and Tips

Gratuities and tips can only be included in qualifying income if they are common for the employment type and regular receipt can be evidenced on the bank statements.

Income: Seasonal Income

In order to use seasonal job income (i.e., income based on annually recurring but temporary circumstance) as qualifying income, the income should have a two-year historical record and be verified via the applicant's most recent pay stub and previous year end paystubs.

Examples of seasonal employment include: Teachers paid for supervising school sports or academic groups, adults umpiring baseball games in the summer; or working at a department store during the holiday shopping season.

Seasonal income is considered uninterrupted, and may be used to qualify the co-applicant, if it can be documented that the co-applicant has worked the same job (or similar job for different employers) for the past two years and intends to be seek work the next season.

Additionally, if an applicant has a history of seasonal employment and seasonal unemployment income, the unemployment income may be considered effective income per the requirements listed below.

Income: Employment Contracts/Raises

For Co-applicant only, not borrower or co-borrowers using bank statements to verify self-employment income. An employment contract is a legally enforceable written document executed jointly by the employer and employee. Employment agreements and offer letters are additional forms of acceptable employment documentation, provided they are fully executed by all parties and afford the same information as previously described. The contract (including employment agreements and offer letters) should define pertinent employment details including employment start date, the applicant's length of employment and salary. The contract terms should be reasonable relative to the role. The applicant must also meet employment stability standards as outlined above. Guaranteed performance raises and bonuses from an applicant's current employer may also be considered under this section.

Qualify an applicant utilizing the income documented in the employment contract as defined provided:

- The employment contract is fully executed by the employer and employee and does not contain contingencies, and

- The applicant will start employment or begin receipt of the income (as applicable) within 60 days of closing

Income: Family Owned Business

A non-self employed co-applicant who is employed by a family owned business (but is not self-employed) or employed by an interested party to the property sale, purchase, or financing transaction may represent a less predictable source of income.

In addition to normal employment verification, a co-applicant employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include: a licensed/certified tax preparer letter, Operating Agreement, or equivalent showing no ownership percentage. Corroboration of payroll checks clearing into the applicant's personal bank account will be required for a minimum of the 2 paystubs submitted to verify income. See Salaried Co-applicants section for other documents required.

Income: Applicants Recently Converted to K-1

An applicant who has recently been made a partner in their employer (typically but not necessarily a law firm, accounting firm, etc.) may also have their income considered stable if a minimum of 12 months has elapsed since the change.

Select the appropriate bank statement program (12 or 24 Months) that most closely matches the time frame since the W2 wages ended. Exclude any W2 months from the P&L. Underwriter will analyze just those months from the end of W2 wages through present.

Income: Self Employed - Description

An applicant is deemed to be self-employed when their primary income source is from a business that they have an ownership interest in which is 20% or greater.

*Self-employment percentages smaller than 20% considered on a case-by-case basis (example doctor, lawyer, accountant with minority ownership in large Professional Organization, clinic, firm)

Income: Self Employed-History & Stability

Applicants must generally have a two-year history in their line of work. If an applicant has less than 2 years' self-employment, a lesser history with a general minimum of one year may be acceptable provided the applicant has a minimum 2-year previous history in the same line of work or in the applicant's field of study. Gaps of employment greater than 30 days must be explained in writing by the applicant. Gaps of employment greater than 6 months require an explanation from the applicant and a minimum two-year history in the line of work prior to the gap.

A licensed/certified tax preparer letter used to verify self-employment addressed to a correspondent (or To Whom It May Concern) is acceptable. The letter will be re-verified either verbally or in writing by FundLoans prior to purchase. The reverification shall be good for 10 days from the date it was completed.

Income: Self Employed – Age of Documentation

Age of Documents

Paystubs (if utilized): No greater than 90 days at time of underwriting, 120 days at Note signing Profit and loss statement/balance sheet: No greater than 90 days at time of underwriting, 120 days at Note signing licensed/certified tax preparer letter or equivalent: No greater than 30 days at Application Date

Income: Other Income Types - Distributions from Retirement Accounts

Distributions from Non-Retirement Accounts

Non-retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from non-retirement assets must be set up and one month's distribution received prior to closing. The following requirements must be met:

Applicant(s) can provide supporting documentation verifying that they have had ownership of financial assets for a minimum of 12 months and that they have unrestricted access. Any deposits >10% of the face value of the account as of the most recent statement must be sourced and documented. Gift funds or other unacceptable deposits will be deducted from the total assets available.

Distribution income cannot be used for qualification if there is any knowledge or documentation indicating that the distribution will terminate within the next three years.

Assets accounts utilized to derive income (distributions) cannot be used for reserves or down payment, nor may income generated from the accounts (i.e. interest, dividends, capital gains) be used for qualifying in addition to distributions.

Distribution income from financial assets must be verified by providing all of the following:

- Year-end statements for most recent year to evidence ownership and value of the assets,
- Written verification from the financial institution managing the assets to evidence that regular monthly distributions have been set up. It must provide amount, frequency and duration of the distributions.
- Most recent two months' statements for account(s) utilized for

  distribution Qualifying Balances

- Checking/Savings: 100%

- Marketable securities: 100%
- Retirement assets: See Below

Calculation Method Any distribution set up must have 84 months of continuance.

Example: an applicant has $700,000 in qualified assets. The maximum distribution that can be utilized would be $8,333 per month ($100,000 per year).

Distributions from Retirement Accounts

Retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from retirement assets must be set up and one month's distribution received prior to closing. The distribution must have at least 3 years' worth of continuance at the time of closing based on qualifying balance. Discount retirement accounts by 30% to determine qualifying balance. The applicant utilizing this income must be of retirement age.

Income: Other Income Sources Annuity

Annuity income is acceptable with a copy of the annuity contract or letters from the organization providing the income. The income must continue for three years from the closing date. Provide one of the following showing receipt of the income:

- 12 months bank statements reflecting regular deposits of the annuity income plus
- The award letter or initial annuity agreement (or confirmation from annuity institution)

Income: Capital Gains

If capital gains income is customary for applicant's occupation and/or the applicant has a constant turnover of assets resulting in gains or losses, capital gains may be considered as qualifying income. A two-year history of capital gains income/losses must be documented. The underwriter must be able to document that the Applicant has an "inventory" of assets to continue to sell in order to generate gains in the future. The assets in the "inventory" must be of the same class as the assets which were generating the gain(s) being utilized to qualify.

Example: Applicant with a two-year history of $25,000 annual capital gains from sale of publicly traded stock and a remaining stock portfolio of $75,000 or more.

Some capital gains are created with a "inventory" of assets – such as a stock day-trader, or residential home rehabber/flipper. In these cases, a 3-year history of successfully acquiring and reselling the same type of asset continuously (stock, bonds, homes, cars, etc) with stable or increasing capital gains can be considered along with an applicant narrative describing the nature of their capital gains income that matches their financial profile.

Income: Interest/Dividends

To include interest or dividend income from cash or marketable securities in qualifying income, the following guidelines will be used:

- The income has been received for the past two years.

- Verification that the underlying cash deposits and/or securities still exist must be obtained within 30 days of closing,

Any required funds necessary for closing on the subject transaction must be subtracted prior to the calculation of interest/dividend income. If using the accounts for funds to close, reduce the interest income by the percentage of assets used for closing.

EXAMPLE: If 20% of the income generating assets are used for down payment or closing cost (do not count use as reserves) the use 80% of the historic average for interest income

NOTE: Do not use an asset account for interest/dividend income while simultaneously using it for the Asset Allowance program.

Additionally:

- Year-to-date interest and dividend income should be averaged for the last two years as verified
- Do not include margined securities in the calculation of interest/dividend income.
- Interest from pass-through tax entities (partnerships and S corporations) may be included provided the applicant's licensed/certified tax preparer can document they still own the interest producing the income in question

Income: Notes Receivable Income

Interest income from a note receivable can be used to qualify. The note must evidence continuance for at least three years. In order to include notes receivable income to qualify an applicant, he/she must provide:

- A copy of the note to establish the amount and length of payment (minimum three years), and
- Evidence that these payments have been consistently received for the last 12 months through deposit slips or cancelled checks

If the applicant is not the original payee on the note, it must be established (typically via a copy of an Assignment of Note) that the applicant is now a holder in due course and able to enforce the note.

Income: Rental/Investment Property Income

Owner Occupied properties (and Non-Owner Occupied properties listed on the borrower's 1003 Schedule of Real Estate Owned) are assumed to be personally held (i.e. ultimately reporting on Schedule E of the borrower's IRS 1040 tax returns) and positive cash flows can be credited as income (negative cash flows are counted as monthly debts).

Properties owned by LLC's, sCorps and Corporations are, by definition, not personally held, even though the borrower may have signed personally for the debt. Mortgage payments, if any, are assumed to be paid through the business and positive cash flows result in a "wash" of the PITIA (negative cash flows are counted as personal monthly debts).

All Mortgage's for which borrower has a personal guarantee a satisfactory current 12-month mortgage payment history is required showing the mortgage current and paid as agreed.

Due to the lack of tax returns on the Apex program, a licensed/certified tax preparer, as an alternative, may provide a "P&L" for any rental property held in an LLC, sCorp or Corporation that mimics the format of IRS Form 8825. Documentation must also be provided indicating percentage of ownership borrower has in LLC, sCorp or Corporation. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Insurance, Interest, Real Estate Taxes, HOA dues, Depreciation and then subtracting current verified PITIA. Positive or negative cash flows treated as described above.

Cash flow methods for various occupancy and ownership types are listed below:

<u>Subject Property Purchase : Owner Occupied Property (2-4 family personally held):</u>

If the property is a primary residence (i.e. Owner Occupied 2-4 unit property), add the adjusted gross rental income to gross income and include the entire PITIA in total monthly obligations. No rental management history is required.

Utilize the appraiser's opinion of market rent (1007) to determine gross rental income. Utilize a 25% vacancy factor to determine adjusted gross rental income (No lease is required, however if a lease is in place then utilize the lesser of the lease or the appraiser's opinion of market rent.)

For Accessory Units:

Must be able to verify with the local building code/zoning department that the accessory unit is

a.) legal (per building code) and

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

<u>Subject Property Purchase : Second Home</u>

Projected rental income generally not allowed on Second Home purchase (home should be registered/locked as an Investment to leverage rental income)

<u>Subject Property Purchase : Investment Property (to be held personally or in a business entity):</u>

Utilize the appraiser's opinion of market rent (1007) to determine gross rental income. Utilize a 25% vacancy factor to determine adjusted gross rental income. Subtract proposed PITIA. Positive cash flow on personally held properties can be added to monthly income, positive cash flows on properties in business entities allow the PITIA to be "washed", negative cash flow is treated as an additional monthly debt on either ownership method.

(No lease is required, however if a lease is in place then utilize the lesser of the lease or the appraiser's opinion of market rent.)

Subject Property Refinance : Owner Occupied Property (2-4 family personally held):

Subject Property held personally need to be disclosed on the applicant's 1003 REO Schedule.

If the property is a primary residence (i.e. Owner Occupied 2-4 unit property), add the adjusted gross rental income to gross income and include the entire PITIA in total monthly obligations.

Utilize either:

- the appraiser's opinion of market rent (1007) to determine gross rental income and a 25% vacancy factor to determine adjusted gross rental income or
- current long-time leases or mo to mo leases (or "expired" lease accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- A licensed/certified tax preparerprepared "P&L" for any rental property that mimics the format of the immediate prior tax year's IRS Schedule E. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract proposed PITIA. Positive cash flow on personally held properties can be added to monthly income, negative cash flow is treated as an additional monthly debt.

(No lease is required, however if a lease and 1007 is provided utilize the lesser of the lease or the appraiser's opinion of market rent.)

For Accessory Units:

Must be able to verify with the local building code/zoning department that the accessory unit is

a.) legal (per building code) and

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

Subject Property Refinance : Second Home

A borrower receiving rental income on a Second Home is still eligible for "owner occupied" financing terms if each of the following requirements are met:

- must be occupied by the borrower for some portion of the year
- must be a one-unit dwelling must be suitable for year-round occupancy
- the borrower must have exclusive control over the property
- must not currently be subject to a month-to-month rental lease or a timeshare arrangement

- cannot be subject to any agreements that give a management firm control over the occupancy of the property

Utilize either:

- current lease (or "expired" lease accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- A licensed/certified tax preparer prepared "P&L" for any rental property that mimics the format of the immediate prior tax year's IRS Schedule E (include number of days rented). Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract proposed PITIA. Positive cash flow can be added to monthly income, negative cash flow is treated as an additional monthly debt.

Any property leased > 183 days per year will be deemed to be an investment property and must follow investment property guidelines and pricing

<u>Subject Property Refinance : Investment Property (Personally held):</u>

Subject Property Investment Properties held personally need to be disclosed on the applicant's 1003 REO Schedule.

Utilize either:

- the appraiser's opinion of market rent (1007) to determine gross rental income and a 25% vacancy factor to determine adjusted gross rental income <u>or</u>
- current long-time leases or mo to mo leases (or "expired lease" accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- A licensed/certified tax preparer prepared "P&L" for any rental property that mimics the format of the immediate prior tax year's IRS Schedule E. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract proposed PITIA. Positive cash flow can be added to monthly income, negative cash flow is treated as an additional monthly debt.

(No lease is required, however if a lease and 1007 is provided utilize the lesser of the lease or the appraiser's opinion of market rent.)

Subject Property Refinance : Investment Property (held in business entity):

Subject Property Investment Properties held in business entity need to be disclosed on the applicant's 1003 REO Schedule in order for the 1008 to properly process. Personally signed mortgage(s) on the property will need to be documented as paid through the LLC and evidence of the Deed vested in the name of the LLC must be in the file.

Utilize either:

- the appraiser's opinion of market rent (1007) to determine gross rental income and a 25% vacancy factor to determine adjusted gross rental income or
- current long-time leases or mo to mo leases (or "expired lease" accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- licensed/certified tax preparer/, as an alternative, may provide a "P&L" for any rental property held in an LLC, sCorp or Corporation that mimics the format of IRS Form 8825. Documentation must also be provided indicating percentage of ownership borrower has in LLC, sCorp or Corporation. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract current verified PITIA from adjusted gross rental income. Positive cash flow on properties in business entities allow the PITIA to be "washed", negative cash flow is treated as an additional monthly debt.

(No lease is required, however if a lease and 1007 is provided utilize the lesser of the lease or the appraiser's opinion of market rent.)

Rental income for non-subject properties can also be utilized as qualifying income by applicants who own investment properties. The following are the acceptable methods of calculation

Non-Subject Property Personally Held Rentals:

Investment Properties held personally need to be disclosed on the applicant's 1003 REO.

Utilize either:

- the appraiser's opinion of market rent (1007) to determine gross rental income and a 25% vacancy factor to determine adjusted gross rental income or

- current long-time leases or mo to mo leases (or "expired" lease accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- A licensed/certified tax preparer prepared "P&L" for any rental property that mimics the format of the immediate prior tax year's IRS Schedule E. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract current verified PITIA from adjusted gross rental income. Positive cash flow can be added to monthly income, negative cash flow is treated as an additional monthly debt.

(No lease is required, however if a lease is in place then utilize the lesser of the lease or the appraiser's opinion of market rent.)

<u>Non-Subject Property LLC –Held Rentals:</u>

LLC-held properties don't need to be disclosed on the applicant's 1003 REO Schedule, but personally signed mortgage(s) on the property will need to be documented as paid through the LLC and evidence of the Deed vested in the name of the LLC must be in the file.

Utilize either:

- the appraiser's opinion of market rent (1007) to determine gross rental income and a 25% vacancy factor to determine adjusted gross rental income <u>or</u>
- current long-time leases or mo to mo leases (or "expired" lease accompanied by the most recent cancelled check from each tenant) a 25% vacancy factor to determine adjusted gross rental income
- licensed/certified tax preparer, as an alternative, may provide a "P&L" for any rental property held in an LLC, sCorp or Corporation that mimics the format of IRS Form 8825. Documentation must also be provided indicating percentage of ownership borrower has in LLC, sCorp or Corporation. Once the current PITIA is documented, the underwriter can perform a cash flow analysis for each affected property by taking the net cash flow and adding back Depreciation, past year Interest/Taxes/Dues then subtracting current verified PITIA. Positive or negative cash flows treated as described above.
- Short term leases or "AirBnB"-type rentals are acceptable provided leases/invoices covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

Subtract current verified PITIA from adjusted gross rental income. Positive cash flow on properties in business entities allow the PITIA to be "washed", negative cash flow is treated as an additional monthly debt.

(No lease is required, however if a lease is in place then utilize the lesser of the lease or the appraiser's opinion of market rent.)

Income from Roommates in a Single Family Property

Income from roommates in a single-family property occupied as the applicant's primary residence is generally not acceptable. Rental income from boarders, however, is acceptable if the boarders are related by blood, marriage or law. (Common examples could include: publicly subsidized housing for elder care of a blood relative, housing allowance for a related adult w/ special needs). The rental income may be considered allowable if licensed/certified tax preparer can confirm taxes filed showing boarder income claimed on applicant's tax return. Without this certification, rental income paid by the boarder may not be used in qualifying.

Reminder: On Bank Statement Loan, tax returns cannot be included in loan file or loan will be disqualified as bank statement loan and must go full doc.

Principal Residence Being Vacated by an Applicant

When an applicant is vacating a principal residence in favor of another principal residence, potential rental income, reduced by the appropriate vacancy factor, may be considered in the underwriting analysis if the applicant has sufficient additional reserves required until the rental income is established.

	Current Principal Residence – Pending Rental Options	
	Option 1: Departing Residence not Under Lease	**Option 2: Departing Residence under Lease**
Establishing Fair Market Rents	Appraiser's Single-Family Comparable Rent Schedule (Form 1007)	Copy of fully executed lease & evidence of cleared/cancelled check for Security Deposit (Lease must begin before 1st payment due date on new subject property mortgage)
Net Rental Income Calculation	(75% of Appraiser's Market Rent estimate) minus (PITIA)	(75% of Monthly Rent reflected in Lease) minus (PITIA)
Application of Calculated Income / Loss	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Neg Rental Income but the monthly mortgage(s) debt obligation can be excluded	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Negative Rental Income but the monthly mortgage(s) debt obligation can be excluded
Additional Reserves Requirement	Additional Reserves requirement of 3 months of the Departing Residence PITIA	No additional Reserves requirement
Bridge Loan / Secured Borrowed Funds to Close	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above
LTV Max on Subject	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.

Income: Royalty/Lease Income (Other than Real Estate)

Lender must carefully consider the source and method in quantifying this type of income and develop its reasonableness and continuity.

To use royalty or lease income:

- Copies of the contracts or leases should be obtained. The payers of the leases/contracts should be identified,
- The income should have a two-year minimum track record, A narrative of the nature of the income and the product or patent that is the subject of the income should be developed
- A two-year average of the income should be used, unless declining, and
- Likelihood of at least three (3) year continuance is required. Continuance can be assumed if there are no patent expirations, contractual expirations, or known regulatory changes that could impede the continuity of the income
- Provide evidence of receipt (bank deposits) for most recent 3 months

Income: Trust Income

Trust income is an acceptable source of income and can be verified via directly with an institutional trust administrator. The administrator should confirm the composition of the trust assets via a recent statement of same and confirm the recent historical incomes (12 or 24 months depending on selected program). Administrator should also confirm the likelihood of continuance for at least 3 years.

Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:

- Amount of the trust,
- Frequency of distribution, and
- Duration of payments.

Trust account funds may be used for the required cash investment if the applicant provides adequate documentation that the withdrawal of funds will not negatively affect income (or an estimate of the effect on the income can be developed and considered when computing the qualification income attributed to the Trust).

Income: Alimony, Child Support and Separate Maintenance Income

Generally, FundLoans requires proof of payment obligation for the past 6 months as evidenced by the divorce decree, a signed separation agreement, or a notarized agreement signed as is dictated by local custom. There must be an expectation of continuance for at least three years from the closing date in order to utilize the income.

Alimony, child support or maintenance income may be considered effective, if:

- Payments are likely to be received consistently for the first three years of the mortgage,
- The applicant provides the required documentation, which includes one of the following:

  - o Final divorce decree,
  - o Legal separation agreement,
  - o Court order, or
  - o Voluntary payment agreement; and

- The applicant can provide acceptable evidence that payments have been received during the last 6 months, such as:

  - o Cancelled checks,
  - o Deposit slips,
  - o Court records.

Income: Automobile Allowance and Expense Account Payments

As a result of the tax law changes that will prevent lenders from being able to identify unreimbursed business expenses the full amount of an automobile or expense allowance may now be included as income for those employees that receive it. Any lease or financing expenditure for transportation must be included as a debt in the calculation of the debt-to-income (DTI) ratio. (Note that a 12-month minimum history of receipt of this income continues to be required.)

Income: Disability Income

Disability income may be included as qualifying income provided the applicant's current eligibility, including the amount and terms of the disability payment income, is verified through a copy of the awards letter, or other verification provided by: the employer, insurance company or government agency (e.g., Social Security Administration, Department of Veterans Affairs).

The underwriter may not request any medical documentation or make any inquiry regarding the nature of the disability or its duration. Any discussion regarding an applicant's disability should be limited to a request for the above required documentation.

Income: Foster Care Income

Foster care income may be included as qualifying income provided: proof of receipt for the previous 24 months and the income for providing foster parent care services to foster children is paid to the applicant by a governmental agency and is verified by copies of checks or contracts/agreements with the governmental agency.

A month-to-month reconciliation of the number of foster care cases in place each month must be provided. Qualification income will be computed considering the average number of foster care placements, the current number of placements and the income per placement.

Income: Government Assistance Programs

Income received from government assistance programs is acceptable as long as the income has been received for the previous 24 months and the paying agency provides documentation indicating that the income is expected to continue for at least three years. Copies of checks, award letters or grant statements are acceptable documentation.

Income: Mortgage Credit Certificates

If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income. Either type of subsidy may be added to gross income, or used directly to offset the mortgage payment, before calculating the Qualifying Ratios.

Income: Homeownership Subsidies

A monthly subsidy may be treated as income, if an applicant is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.

If the applicant is receiving the subsidy the amount received is treated as income, even if paid directly to the servicer. The amount received may also be treated as nontaxable income and be “grossed up” by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the applicant’s income from employment and/or other sources.

Income: Retirement/Pension Income

Retirement income must be verified from the former employer, custodian or from federal tax returns. If any retirement income will cease within the first full three years of the mortgage loan, it may not be used in qualifying. Retirement income and/or pension income must be verified using one of the following options: Written verification from the financial institution holding the assets/organization/company supplying the income,

- Copy of most recent award letter,
- Copies of the most recent 3 months check stubs evidencing consistent receipt of the income
- Copies of the most recent 3 months bank statements that verify receipt of the direct deposit,

*1099’s, tax returns, or transcripts are not required to prove retirement/pension income when one of the options above are supplied.

Income: Social Security Income

Social Security income must be verified with the Social Security Administration or on Federal tax returns. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying. Any portion of the Social Security Income which is non-taxable can be grossed up by up to 25% (subject to taxable portion shown on most recent 1040's).

Social Security income can be used as qualifying income provided the income is verified via one of the following:

- A copy of the Social Security Administration Award Letter,
- 3 months bank statements that verify receipt of the benefits via direct deposit,
- 3 months most recent check stubs,
- Most recent 2 year's 1099 tax forms, or
- Most recent 2 year's personal tax returns. Social Security income is found on the front page of the personal tax return.

The following suffixes to the social security number will indicate what type of social security benefit is being received:

Suffix Description:

- A- Disability or retirement benefit
- B-The person is still alive, and the spouse is receiving the benefit
- C- Child beneficiary
- D-The person is deceased, and the surviving spouse is receiving the benefit

*1099's, tax returns, or transcripts are not required to prove social security income when one of the options above are supplied.

Income: Supplemental Security Income

Supplemental Security Income may be included as qualifying income provided verification can be obtained by one of the following:

- A copy of the awards letter,

  Note: Continuance of at least three years for Supplemental Social Security Income for "child beneficiary" must be evidenced. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Income: Unemployment Compensation

Unemployment compensation for co-applicants (such as that received by seasonal workers) may be considered as acceptable stable income provided it is properly documented, has been

- received for the past two years and

- is predictable and likely to continue.

Unemployment income earned in prior years can be verified with 1099-G. Unemployment compensation for co-applicants not currently employed will not be considered to have sufficient continuity to be used as income.

Income: Veterans Benefits

Veterans benefits, other than educational assistance, can be included as qualifying income provided the income is verified via one of the following;

- a letter or distribution form or a Statement of Earnings from the Department of Veterans Affairs (VA).
- Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided that lender obtained documentation from the VA.
- Education benefits used to offset education expenses are not acceptable.

If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Income: Temporary Leave Income

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the applicant's employer. Applicants on temporary leave may or may not be paid during their absence from work.

If the underwriter is made aware that an applicant will be on temporary leave at the time of closing of the mortgage loan and that applicant's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below:

- The applicant's employment and income history must meet standard eligibility requirements as described above.
- The applicant must provide written confirmation of his or her intent to return to work.

Document the applicant's agreed-upon date of return by obtaining verification either from the applicant or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave). See FNMA's Selling Guide for examples of acceptable documentation. This documentation does not have to comply with the Allowable Age of Credit Documents policy.

The lender must receive no evidence or information from the applicant's employer indicating that the applicant does not have the right to return to work after the leave period.

The lender must obtain a verbal verification of employment. If the employer confirms the applicant is currently on temporary leave, the lender must consider the applicant employed.

The lender must obtain the amount and duration of the applicant's “temporary leave income,” which may require multiple documents or sources depending on the type and duration of the leave period and “regular employment income.”

The lender must verify the applicant's income in accordance with the other provisions of this guide. This may impact income that is performance based, such as averages used for commissions, overtime and performance-based bonuses, etc).

Note: Income verification may be provided by the applicant (provided it is copies of employer/employee communication regarding the leave, by the applicant's employer or by a third-party employment verification vendor.

Requirements for Calculating Income Used for Qualifying

- If the applicant will return to work as of the first mortgage payment date, the lender can consider the applicant's regular employment income in qualifying.
- If the applicant will not return to work as of the first mortgage payment date, the lender must use the lesser of the applicant's temporary leave income (if any) or regular employment income. If the applicant's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. [NOTE: that these reserves would be in addition to any other reserves required under this guide. Following are instructions on how to calculate the “supplemental income”:]

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

Total qualifying income = supplemental income plus the temporary leave income

Available liquid reserves = subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount. Number of months of supplemental income: the number of months from the first mortgage payment date to the date the applicant will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income. The total qualifying income that results may not exceed the applicant's regular employment income.

The same assets utilized to meet the liquid reserve requirement for this section may not be used for asset distribution.

Income: Other Income

Other income sources, whether taxable or non-taxable, must be verified unless otherwise indicated in the specific program profile. Non-taxable income should be distinguished from non-reported income as non-taxable income sources are not taxed, since the "value" to the applicant is greater. Unless otherwise noted, all non-taxable income sources may be grossed up by a factor of 25% provided the non-taxable status of the income is verified.

All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue to be received for a minimum of three years. Provided there is no evidence that the income source will cease within the next three years, it can be reasonably assumed that the income will continue. In no case can income be used for qualification if there is any knowledge or documentation indicating that the income will terminate within the next three years.

Income: Unacceptable Sources of Income

Examples include, but are not limited to, the following:

- Temporary or non-recurring income
- Educational Benefits
- Income that cannot be verified, is not stable or will not continue.
- Non-reported income (also known as undocumented income) cannot be used as a qualifying income source.
- Gift income, even if received on a regular and on-going basis, is not eligible income.

Income: Tax Transcripts

W-2s and/or 1099s provided by an applicant must be verified by the IRS. In the event the most recent year's information cannot be verified due to a recent filing, the income may be considered in accordance with the guidelines with the following documentation:

- Previous year's (or two years') W-2's and/or 1099s
- Previous year's (or two years') W-2's and/or 1099 transcripts
- The IRS response to the request for transcripts must reflect "No Record Found" and be present in the loan file.

Note: W-2 and/or 1099 transcripts will be required after June 30th of the current year. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained to satisfactorily address.

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 appraisals are acceptable with a fully executed transfer letter that confirms the original appraisal was ordered in an AIR-compliant manner.

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 1,500,001 - ≤$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 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
    - 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 (Exceptions can be made on a case-by case bases if unit has a fully functional kitchen – sink, full-size stove & refrigerator, sufficient cabinet space AND enclosed full bathroom)
4. Mixed Use Properties
5. Vacant Land (including blanket mortgages of residence on lot included with additional buildable 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 Cabins / Log Homes
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. Co-ops (Cooperative Housing)

Property Eligibility: Large Loan Balance Overlays

The following appraisal restrictions apply to original loan balances that exceed $3,000,000.

Neighborhood Analysis:

- Properties designated as "rural" not allowed (exception on case-by-case basis for locations with high levels of tourist/vacation destination demand)
  [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]
- "Declining" Markets not allowed (unless LTV is 50% or less)
- Markets in "Over-supply" not allowed (unless LTV is 50% or less)
- The appraised value may not exceed the highest value of the Predominant Price Range by more than 10% (unless LTV is 65% or less)
- Marketing Time for Properties: "Over 12 months" Not Allowed (unless LTV is 65% or less)

Comparable Sales:

- Minimum of 4 closed comparable sales
- All comparable sales must have occurred within the 12 months preceding the appraisal date (unless LTV is 65% or less and market not "declining")
- At least 1 closed comparable must have occurred with 120 days of the appraisal date
- All comparable sales must be located within 4 miles of subject (Except in search for comparable waterfront properties, properties adjacent to prominent geological features such as mountains, canyons, etc; or other property locations/features that prevent a radial-style comparable property search)
- At least 1 closed comparable sale must be located within 1 mile of subject
- At least 2 closed comparable sales must be located within the same neighborhood as the subject

Property Condition:

- Eligible Property Condition Ratings: C1, C2, C3; C4
- Eligible Quality of Construction Ratings: Q1, Q2, Q3, Q4

Maximum Acceptable Acreage: 5 acres (unless exception granted by FundLoans prior to closing)

Zoning Properties: Properties zoned as agricultural are not eligible (Allowed case by case for select areas of the country where residential/agricultural mixed-use is prevalent – Example: Napa Valley vineyard)

Total Adjustments: Net Adjustments may not exceed 15% of the sales price of the comparable sale and gross adjustments may not exceed 25%. (unless LTV is 65% or less)

Property Eligibility: Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal.

If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Excessive amounts of personal property (such as furniture included in purchase of Seller's former second home) will be estimated at depreciated value of 6% of the property's value if a personal property appraisal is not performed prior to closing, even if given a "Zero Value" in the Purchase Agreement. If the combination of the Appraised Value minus the 6% personal property value still conforms at or below recommend LTV percentages FundLoans will allow the conveyance of the personal property in the real estate contract (without affecting the Sales Price) if it perceived that the conveyance of furniture is customary to the area and property type (such as vacation rental property).

Property Eligibility: Property Condition at Closing

New Condominium units that have been granted Occupancy Certifications as "Design – Ready "(interior complete minus buyer's choice of flooring) are acceptable to close without an escrow/repair holdback as long as borrower meets minimum Reserve Requirements plus $25/sq ft x unit square footage.

Homes with minor repairs (not affecting safety/habitability/integrity of structure) in progress at time of appraisal inspection are okay to close without an escrow/repair holdback as long as estimate of cost-to cure represents less than 1% of Market Value. (Examples: portion of sheetrock removed to repair/upgrade plumbing; wall /floor being re-tiled; ceiling fan/light fixture replacement; repairs to a single bathroom when home has multiple bathrooms).

Major repairs must always be completed prior to closing, such as:

- Roof damage/leaks;
- Empty or "Green" Swimming Pools;
- Damage/Repairs to Exterior Walls;
- Termite damage;
- Water/Dry Rot damage;
- Major or total remodeling of a Kitchen or Bath;
- Room Additions/Story Additions / Dormer Additions;
- Garage or Accessory Building Additions

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 and will be reduced at a rate of $100 per day for each day of non-completion on Day 30 (after Note signing), until compensation is exhausted.

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 application date where the contract price exceeds the sellers 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;

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 funding.

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 purchase 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:

Unit and Project Type	Project Review Methods
Attached condo unit in a new or newly converted project	Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process w/ unconditional approval see: https://www.fanniemae.com/singlefamily/project-eligibility-review-service#

Established condo project	Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process w/ unconditional approval see: https://www.fanniemae.com/singlefamily/project-eligibility-review-service# FHA HUD Review and Approval Process (HRAP) Approval (see https://entp.hud.gov/idapp/html/condlook.cfm) if all conditions of approval are met. >Full Review (Form 1076: https://www.fanniemae.com/content/guide_form/1076.pdf)
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic insurance and litigation requirements that apply.
Detached unit in a new or established condo project	Project review is waived, with the exception of some basic requirements that may apply.

Project Eligibility Risk:

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- The financial stability and viability of the project;
- The condition and marketability of the project;
- Limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- Possible dissolution of the project and the unit owner's resulting rights and responsibilities;
- Project-level litigation;
- Project-level misrepresentation and fraud;
- The inability to cure a mortgage default loss due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- Insurance coverage that is inadequate to protect the project from unexpected fiduciary, property or liability losses.

FundLoans project exposure maximum shall be $5,000,000 or 15% of project whichever is lower

Borrower project/unit concentration limit: two (2) units

Project Review Documentation (required on all Condo submissions):

- Fannie Mae Form 1077 (Full Review)
- Current year Budget
- Current Balance Sheet (most recent Financial Quarter)
- HOA Master Insurance Policy (and Flood Insurance , if applicable)

- Articles of Incorporation
- Most Current version of ByLaws (or Covenants, Conditions and Restrictions)

General Project Criteria

- Project has been created and exists in full compliance with applicable local jurisdiction, State and all other applicable laws and regulations
- Project meets all Fannie Mae Insurance requirements for property, liability and fidelity coverage
- Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins and any improvements made to the unit

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.
- 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 on O/O transaction	% Of O/O and 2nd Homes on non O/O transaction	% Of Budget for Reserves	% Of Units with DQ Dues	% Of Commercial Space	LTV Max
Detached (Site) Condo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Matrix
Less than 5 Units Total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Matrix
Warrantable (Established)	10%	90%*	NA	50%	10%	10%	25%	Matrix
Non-Warrantable-Single (Est'd/New)	25%	75%	50%	50%	5%	15%	35%	80%
Non-Warrantable-Multi (Est'd/New)	25%	75%	50%	50%	5%	15%	35%	65%
Steamlined Review**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	50%

*New at 80% if only non-warrantable issue
**Insurance and Litigation review only

Non-Owner Non-Warrantable Condo Limits: 5% below Owner Occupied LTV Maximum noted above.

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 in other aspects of the file (Income, DTI, Residual Income, Equity Position, Reserves, Payment Shock, 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 – Superior Past Credit

<u>Superior Past Credit</u> (if Standard Tradelines not met) - Each borrower must have:

- (8) tradelines (open or closed) with a date of last activity in the past 60 months and reporting for a cumulative total of 192 months reviewed or more. Borrower cannot have BK/ FC/SS/DIL or judgments/collections/liens of any type and no 60+ ratings in past 60 months OR

- (10) tradelines (open or closed) over the lifetime of credit and reporting for a cumulative total of 360 months reviewed or more. Borrower cannot have BK/FC/SS/DIL or judgments/collections/liens of any type and no 60+ ratings in past 60 months

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:

- Max LTV/CLTV of 75%
- A 10% down payment has been made by the applicant from their own resources
- Primary residences only
- Not allowed for 12-month bank statement and Asset Depletion doc types

Credit: US Citizens – Married Borrowers Unmarried Joint Applicants

For married applicants, only the primary wage earner need meet the tradeline / FICO standards

Unmarried joint applicants who meet at least two of the three below criteria may be treated as spouses for determining compliance with the trade line requirements (within the meaning of Section 7.1)

- Reside together for at least two years,
- Hold at least one joint trade line, and
- Jointly hold asset accounts

Credit: US Citizen Working Out–of-the-Country; Non-Permanent Resident Alien; Foreign National

An applicant who is a US citizen but currently living outside the USA/Non-Permanent Resident Alien or Foreign National must attempt a Residential Mortgage Credit Report (RMCR) to request information from all three credit bureaus. If the applicant does not meet the US Citizen tradeline requirements they may utilize one of the options below to meet this requirement.

Citizens from Australia, Canada, India, Mexico and the United Kingdom can meet the Standard or Limited Tradelines, Superior Past Credit or Lifetime credit standards listed above using a combination of US Credit and tradelines found on an International Credit Report (or Credit Report from their home country).

Otherwise, in order to utilize this guideline, the applicant must have :

-At least 1 Credit Reference letter from a Financial Institution detailing a minimum of a 2-year relationship

-3 Credit References from their home country

Credit: Ineligible Applicants

Ineligible applicants include:

- ITIN Borrowers
- 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 (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 loans), Income Verifications (paystubs, Written VOE's, 3rd party VOE's) and Asset Verifications (most recent of consecutive month's bank statements, account histories) should be no older than 90 days at the time of the initial underwrite, and no more than 120 days old at the date of the Note.

Other informational documents (prior year-end paystub, divorce decree, etc) have no expiration date.

Credit: Fraud Alerts

All three national credit repositories have developed automated messages to help identify possible fraudulent activity on a credit report. The alerts are commonly known as HAWK alerts.

All HAWK Alert messages shown on a credit report, especially those in the Fraud Verification Information section, should be addressed and commented on or resolved. Acceptable documentation/ explanations to resolve the issues raised must be included in the file.

Credit: Data integrity Checks

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. Fraud Guard, DataVerify, etc.) prior to closing. A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted.

Credit: Security Freeze

The credit report used to evaluate a loan may not reflect a security freeze. If a credit report reflects a freeze, a new three-bureau merged report must be obtained once the borrower unfreezes their credit, in order to reflect current and updated information from all repositories.

Credit: Gap Report

Confirmation that the Borrower has no new debt must be obtained within 10 days prior to closing. Confirmation could consist of a "soft-pull" or "Gap" credit report, or a new credit report where a soft-pull or gap report is not possible, such as a Borrower with Foreign Credit. DTI must be recalculated and new FICO scores (if applicable) must be considered to confirm that the loan proposal continues to meet program tolerances.

Credit: FICO Score Methods by Doc Type

- <u>Bank Statement</u>: The indicator score of the primary income earner 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. An applicant's documented income may not be excluded to manipulate the primary income-earner on a file. The primary wage earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirica), 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. Additional borrowers on the loan must have at least one valid score of 600 or greater.
- <u>Asset Allowance</u>: Generally, use the lowest middle score on the file. If one applicant is providing 75%+ of the assets for the subject transaction, including funds to close and all post-closing reserve requirements, in accounts that are either solely in their name or jointly with persons who are not applicants on the transaction, then they are deemed to be the primary asset contributor and their FICO may be used for guideline purposes.

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.

If the generation of a new credit report (and resulting revision to FICO scores) is more convenient for the borrower following the processing of debt pay down or payoff, a new updated credit report can be substituted for the original credit report.

Credit: MERS Report

A Mortgage Electronic Registration System (MERS) report should be run prior to closing to determine if the borrower has undisclosed liens and/or if another mortgage is being originated. If new debt has been obtained, the Loan File must be re-evaluated to ensure compliance with debt-to-income and borrower eligibility requirements.

Credit: Accounts Not Appearing on Credit Reports

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 Rent
- 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 – Verification of Rent completed by Property Owner
- Non-Reporting Installment/Revolving Debt: Written Verification of Loan
- Asset-secured Loans: Copy of consecutive statements showing payment postings

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.

All properties personally–vested in the applicant's name 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.

Credit: Housing Payment History

Each loan application must include a fully documented, recent, consecutive, 24-month housing history and provide mortgage/housing payment history for a minimum of the 12 months leading up to the application date. On non-owner occupied transactions, a mortgage / housing history is required on the subject property as well as the primary residence and any other properties the borrower owns.

0X30x12 is the expected payment history on any mortgage/rent in the past 12 months for all borrowers combined for prime borrowing. (See matrices for credit grading with mortgage lates.)

If there are multiple borrowers on the loan, only one of the borrowers must have a primary housing history, however a non-occupant co-borrower's history may not be used to satisfy this requirement

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 and back)
- 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 housing history payment.

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

- Primary residence and second homes only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- Payment Shock is not considered but DTI limited to 40%
- VOR/VOM must be obtained for all months available reflecting paid-as-agreed
    - See Credit: Accounts Not Appearing on Credit Reports for Private VOM and VOR requirements
- 24 months Bank Statement program type required

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

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 personally held investment property.

In addition to the above restrictions, the following apply to borrowers living rent free:

- LTV/CLTV limited to 85% or the program maximum, whichever is lower
- Primary residence only
- Borrower is allowed a minimum contribution of 5%, if the remaining contribution is documented and sourced from the same party providing the signed rent-free letter.

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. The same guidelines apply for non-subject property mortgages, but proof mortgage paid off, refinanced or extended prior to subject property closing required.

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. Major adverse credit does not impact the grade determination, since these elements have already been included in the credit score. However, the allowance of adverse credit is restricted by grade and 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. If this requirement cannot be satisfied, then the liability must be considered as a monthly debt payment in the borrower's qualifying DTI.

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

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 unauthorized use.

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) doesn'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.

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. If there is a delinquency in the most recent 12 months, the CCCS will be treated as ineligible. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan. If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection subject to the limits in the Collections and Charge-offs section.

The monthly CCCS plan payment must be included in the DTI calculation. 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.

<u>Prime Program</u>:

- Open adverse credit must generally be paid off prior to or at closing, however if an individual account balance is under $250 and the aggregate of accounts outstanding is under $1,000 it may remain open.

<u>Credit Grades:</u>

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
- Payment for remaining collections and charge-offs included in DTI results in final DTI ≤ 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

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

Credit: Medical Collections

Medical collections may remain open regardless of amount.

Credit: Rolling Lates

On a case-by-case basis the presence of a single incidence of a "rolling" 30-day late episode in housing payments (primary, second home or investment) can be considered as meeting the 1x30x12 payment rating standard. Multiple incidents of rolling lates will not be treated as a single event and each occurrence of a contractual delinquency will be considered individually for grading credit or meeting creditworthiness lending standards.

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

Liabilities: Defined

For each liability, underwriting must determine the unpaid principal balance, the terms of repayment, the applicant's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the applicant or creditor. If the credit bureau report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans the underwriter must document separate credit verification.

If a current liability appears on the credit bureau report that is not shown on the loan application, the applicant will be required to provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the applicant's explanation.

If the applicant discloses, or Lender discovers additional liabilities after the underwriting decision has been made, up to and concurrent with the closing, the underwriter must recalculate the applicant's debt-to-income ratio for loan closing qualification.

Debt payments, such as a student loan or balloon payment note scheduled to begin or come due within 12 months of the mortgage loan closing, must be included as anticipated monthly obligations during the underwriting analysis. Balloon payment notes that come due within one year of loan closing must be considered in the underwriting analysis be verifying sufficient liquid assets available to the Applicant to cover the amount due, in addition to all other requirements

A lender may use a credit report to verify a borrower's current debt obligations, unless the lender has reason to know that the information on the report is inaccurate or disputed.

Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods similar to Fannie Mae guidelines.

Liabilites: Alimony, Child Support, Separate Maintenance

For Bank Statement loans alimony may be deducted from income rather than included as a liability.

For Asset Allowance, it is included as part of the debt service.

Child support and separate maintenance must be included as a liability on all three product types.

Document the terms of the payment via either the divorce decree, separation agreement, court order, or notarized agreement signed by all parties and their attorneys.

Liabilities: Installment Debt

Installment loans (i.e. car loan, student loan, etc.) must be included in the DTI/Debt Service. Utilize the payment listed on the credit report for qualifying. Installment debt with less than 10 months remaining may be excluded from DTI/Debt Service when the monthly payment represents less than 5% of the borrower's monthly qualifying income OR as long as the applicant has sufficient remaining assets (above and beyond down payment/cash-to-close/required reserves) to make the remaining payments.

Applicants may pay down the debt to less than 10 months to exclude the payment, the assets used must be sourced. Applicants may also pay off the balance on an installment debt to exclude the payment from the DTI/Debt Service. Source the funds utilized and calculate that they are above and beyond funds needed for down payment/cash-to-close/required reserves.

If no payment is listed on the credit report, obtain documentation of the current payment (original Note or recent Account Statement). If the payment on an account is subject to change within 6 months (i.e. an ARM or Interest Only loan that is near adjustment) provide documentation (Note) showing the Index and Margin and then compute what the new payment will be based on current Index and Margin and utilize that payment in determining the DTI/Debt Service.

Liabilities: Revolving Debt

Revolving debt may be paid off prior to or at closing to have the payment excluded from the DTI/Debt Service. Underwriter must document sufficient funds exist for debt payoff once down payment/cash-to-close and Reserves needed are met. If paid at closing on a purchase or rate and term refinance transaction, document the applicant brought the funds to closing necessary to pay off the account(s). If on a refinance loan proceeds will be used to pay off revolving debt, the transaction will be deemed cash out. The paid off account(s) do not need to be closed.

If a revolving account has no balance, no payment needs to be included.

If a revolving account has a balance, but no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation. Use the actual payment on credit report, unless the applicant can document a lower payment by providing any updated current account statement.

Liabilities: Student Loans

For qualifying purposes, all student loans must include a monthly payment in the total debt calculation when assessing the borrower's ability to repay, regardless of deferral, forbearance, or repayment status. When determining payment amount, the following calculation options are acceptable:

- 1% of the outstanding balance per individual account.

- The fully amortized payment documented on the credit report (third party documentation required)

- A calculated payment that will fully amortize the loan(s) based on the documented loan repayment terms. (third party documentation required)

- A calculated payment that will fully amortize the loan(s) based on the current prevailing student loan interest rate and the allowable repayment period.

The "current prevailing student loan interest rate" can be found on a variety of websites. For example, see U.S. Department of Education Federal Student Aid https://studentaid.ed.gov/sa/types/loans/interestrates

Liabilities: Business Debt In Applicant's Name

Bank Statement loans:

- The account in question does not have a history of delinquency,
- The P&L's show itemized interest sufficient to accounted for the account payments (or licensed/certified tax preparer Expense Letter notes that the expense ratio includes that portion of interest expense for the specific loan in question)
- The most recent 6 months canceled checks drawn against the business account (or evident on business bank statement checks or ACH transfers)

If the Underwriter cannot confirm, the minimum payments for the debt must be included in the Borrower's DTI.

Liabilities: Commercial Real Estate Obligations

For Bank Statement Loans:
If business bank statements show that the business pays the Borrower's Commercial Property PITIA each month it will be assumed that the debt can be excluded from the borrower's DTI in total unless the P&L doesn't include PITIA expenses (or in the expense ratio) or the expense amounts listed on the P&L (or expense ratios) are insufficient to pay the PITIA expense.

To ensure that the obligation is counted only once, Lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question if being counted personally.

The account payment does need to be considered as part of the applicant's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds,

- If the business provides acceptable evidence of its payment of the obligation but the underwriter's analysis of the business does not reflect any business expense related to said obligation, it is reasonable to assume that the obligation has not been accounted for in the underwriter's analysis, or
- If the account in question has a history of delinquency.

Liabilities: Court-Ordered Assignment of Debt

When a Borrower has outstanding revolving / installment debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) the Liability does not need to be considered as part of the applicant's recurring monthly debt obligation. Verify through an executed copy of Divorce Decree and Settlement Agreement that the debt assigned to another party who is fully responsible for repayment of that debt

Property debt that is now paid by a former co-owner (i.e., divorce) pursuant to legal separation agreement or court-ordered asset division - Evidence of the agreement or court order and transfer of ownership must be provided. For purposes of excluding a mortgage or HELOC, the co-signor may or may not be on title to the property tied to the loan in question.

Liabilities: Co-Signed Debt/Contingent Liabilities

If the borrower is a co-signer or guarantor on any loans (i.e. not the sole signor) those liabilities must be indicated on the application.

Debts that have been co-signed by the borrower may be excluded from the qualifying DTI under the following scenarios. In every situation, the debt must be paid current and as agreed for at least the previous 12 months.

- Satisfactory documentation is provided to prove that the primary obligor has been making the payments on a regular basis.
- At least 12 consecutive months of canceled checks from the primary obligor are required (unless the debt was placed in the last 12 months, then all checks since inception with a minimum seasoning of 6 months)
- Co-signed debts must be paid satisfactorily (0x30) or they will be counted in the borrower's credit grade and program eligibility.

Property debt that is now paid by a former co-owner (i.e., divorce) pursuant to legal separation agreement or court-ordered asset division - Evidence of the agreement or court order and transfer of ownership must be provided. For purposes of excluding a mortgage or HELOC, the co-signor may or may not be on title to the property tied to the loan in question.

Mortgage assumed by third-party without a release of liability - A copy of the assumption agreement and evidence of transfer of ownership must be provided.

Installment or revolving debts personally guaranteed by the borrower on behalf of an LLC or business owned in part or in whole by the borrower may be excluded on qualifying DTI's if:

- The licensed/certified tax preparer can confirm that the payment of the debt is represented in the interest expense line item in the business P & L (full doc) or the

Expense Ratio (business bank statements) and sufficient expenditures in at least the amount of the debt repayment are evident AND

- Cancelled checks or withdrawals can be proven on the business bank statements for a 12 month period (or the length of the loan to date if at least 6 months seasoned)

Installment or revolving debts solely in the borrower's name but paid by a 3rd party must be included in the borrower's debt ratios unless the debt is paid-in-full (by borrower or 3rd party) before closing.

Liabilities: Lease Payments

Lease Payments must be included regardless of the remaining term since, at the end of the lease term, the applicant will be faced with either a buyout of the lease (purchase of the car) or a new lease contract obligation. If the borrower plans to buyout the lease (purchase the car) on or before closing and has sufficient assets to meet cash-to-close requirements and post-closing reserves, the debt can be excluded with a loan condition for proof of lease buyout.

Liabilities: Relocation Benefits (Prior Residence)

The PITIA on the existing residence can be eliminated from the debt-to-income ratio analysis (without additional reserve requirements) in an employer relocation situation if all the following conditions are met:

- A copy of the offer to purchase for the existing residence (from the relocation company) must be provided
- Any closing costs and points that may be included in the relocation package can be used as closing funds. However, the applicant must provide funds for prepaid items unless specifically stated in the relocation package, and
- At loan closing, a copy of the equity advance or a settlement statement must be provided as evidence of sale and release from liability

Liabilities: Deferred Installment Debts (including student loans)

Deferred Installment Debts, such as deferred student loans, must be included as part of the Applicant's recurring monthly debt obligations. (See Student Loans). If the Applicant's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the Applicant must obtain copies of the payment letters or forbearance agreements so that a monthly payment amount that will be payable at the end of the deferment period can be determined and used in calculating the Applicant's total monthly obligations.

If a payment cannot be determined, utilize 1% of the outstanding balance of the debt.

Liabilities: Loan Secured by Financial Assets

Payments on loans secured by real estate or other personal property must always be included in the DTI ratio/debt service, either entirely or after an appropriate cash flow calculation that results in a net cash loss each month.

When an applicant uses financial assets—such as life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the applicant has a contingent liability. The underwriter is not required to include this contingent liability as part of the applicant's recurring monthly debt obligations provided that the lender obtains a copy of the applicable loan instrument that shows the applicant's financial asset as collateral for the loan.

If the applicant intends to use the same account to satisfy financial reserve requirements, Lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the applicant has sufficient reserves. If the account is to be used for income (such as "asset depletion") the loan balance should be deducted before applying any "haircuts" to the asset balance prior to income calculations.

EXAMPLE: $1,000,000 balance - $500,000 margin loan = $500,000 remaining balance X 80% of value for Stocks = $400,000 net balance available for Asset Utilization divided by 84 months = $4,761/month income.

Liabilities: Authorized User Accounts

Authorized user accounts should generally not be considered in the borrower's debt-to-income ratio unless the account is being used to satisfy Minimum Credit Standards (with evidence that 24 months of consecutive payments have been made directly by our borrower to the creditor). Satisfactory verification via cancelled checks and/or payment receipts is required.

Liabilities: Alimony, Child Support, Separate Maintenance Obligations

Alimony and Separate Maintenance fees (exclusive of child support) should be current at the time of application and can be deducted from the borrower's qualifying income, similar to IRS treatment of the same expenses. If 10 or fewer payments remain the obligation may be excluded consideration.

Monthly child support fees should be current at time of application and must be included in the borrower's debt-to-income ratio. If 10 or fewer payments remain the obligation may be excluded consideration.

File documentation should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order.

If payments are past due, the arrearages must be brought current prior to loan closing.

Liabilities: Debt Paid by Others

If documentation is obtained evidencing that a non-mortgage debt has been satisfactorily paid by another party for the past 12 months, then the debt can be excluded from the debt-to-income ratio. This policy applies regardless of whether the other party is obligated on the debt. The other party may not be an interested party to the transaction.

Liabilities: Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance. The funds needed to pay open 30-day charge account balances must be flagged as “omitted” on the Final 1003, and the funds needed to pay the balance must be excluded when calculating cash needed to close and funds needed to meet reserve requirements.

If the borrower paid off the account balance since the time of the credit report, and updated account statement showing a zero balance may be provided as proof of payoff, and a transaction history or updated bank statement from the account used to pay the balance in full may be provided to verify post-payoff assets available

Liabilities: Timeshare Loans

For credit review purposes, any payments on a timeshare will be treated as installment debt, regardless of how it is reported on the credit report. An adverse rating on any timeshare loan may be considered derogatory credit but will not be treated as a housing-related credit event (such as Foreclosure/Short Sale/Deed-in-Lieu of Foreclosure/ Loan Modification) for credit grading purposes.

Liabilities: Undisclosed Debts

If asset statements provided reflect regular monthly payments made on obligations not listed on the credit report or 1003, additional Information must be obtained to determine if the liability should be included in the borrower’s debt-to-income ratio.

If the obligation does not belong to the borrower, supporting documentation is required. If there is a non-borrower also on the bank account, a signed letter of explanation from the borrower is sufficient.

If it is discovered that the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio and the initial 1003 should be revised to include the undisclosed debt.

Liabilities: Delinquent Property Taxes

Delinquent Property Taxes Property taxes on ANY real estate owned, delinquent greater than one installment, will be considered derogatory. A satisfactory explanation must be provided, and all delinquent taxes must be paid current at or prior to loan closing

Liabilities: HELOCS (Home Equity Lines Of Credit)

Home Equity Lines of Credit Secondary or subordinate financing that is a Home Equity Line of Credit (HELOC) is subject to the following:

- The calculation of the CLTV must include the total usable HELOC.

For qualification purposes, in calculating the monthly housing payment, use the following:

- For an existing subordinate lien, use the payment noted on the credit report or monthly statement (1% of the maximum current available draw will be used if the payment is not verified). If there is no balance, then no payment will need to be used.
- For a simultaneous HELOC originated with a new first mortgage, use the amount to be drawn at funding.

The ATR repayment calculation method for simultaneous loans must be used.

Second Trust Deeds, Junior Liens, and Secondary Financing Documentation Requirements

The following outlines the documentation requirements for secondary financing and junior liens. If the secondary financing is a simultaneous closing, then the following items are required:

- A copy of the loan approval from the institution providing the secondary financing prior to closing, AND
- A copy of the executed note at closing

If the secondary financing is a subordinate, then the following items are required.

- The terms of the current second mortgage. If unable to discern from credit, the Broker must obtain a copy of the terms from the lender
- An unsigned copy of the subordination agreement prior to closing, AND
- A copy of the executed subordination agreement at closing.

Liabilities: Departing Residence Expense

	Current Principal Residence – Pending Sales Options	
	Option 1: Departing Residence not Under Contract or Listed for Sale	**Option 2: Departing Residence under Contract**
Purchase Agreement	No contract required for the departure residence	A copy of an executed sales contract for the property pending sale
Multiple Listing / Open Market Sale	Signed letter of intent from the borrower indicating that they intend to list the departure residence for sale within 90 days of closing the subject transaction	The pending sale transaction must be arm's length
Equity Estimate	Equity in the departure residence must be documented with an Exterior-Only Inspection Residential Appraisal Report (FNMA Form 2055)	No appraisal required for the departure residence
Equity Test	Departure residence must have a minimum of 20% equity after deduction of outstanding liens. Please note: If the equity position is less than 20%, the full payment must be included in the borrower's qualifying DTI	The borrower must be netting positive proceeds from the sale of the property or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence
AdditionalReserves	Additional reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal: -Marketing time of 6 months or less - 12 months of PITIA reserves -Marketing time of over 6 months - 24 months of PITIA reserves	No limit on LTV/CLTV, refer to the program maximum.
LTV Max on Subject	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.

	Current Principal Residence – Pending Rental Options	
	Option 1: Departing Residence not Under Lease	**Option 2: Departing Residence under Lease**
Establishing Fair Market Rents	Appraiser's Single-Family Comparable Rent Schedule (Form 1007)	Copy of fully executed lease & evidence of cleared/cancelled check for Security Deposit (Lease must begin before 1st payment due date on new subject property mortgage)
Net Rental Income Calculation	(75% of Appraiser's Market Rent estimate) minus (PITIA)	(75% of Monthly Rent reflected in Lease) minus (PITIA)
Application of Calculated Income / Loss	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Neg Rental Income but the monthly mortgage(s) debt obligation can be excluded	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Negative Rental Income but the monthly mortgage(s) debt obligation can be excluded
Additional Reserves Requirement	Additional Reserves requirement of 3 months of the Departing Residence PITIA	No additional Reserves requirement
Bridge Loan / Secured Borrowed Funds to Close	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above
LTV Max on Subject	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.

Liabilities: Unreimbursed Business Expenses

As a result of the tax law changes that will prevent lenders from being able to identify unreimbursed business expenses, we are removing the requirements for IRS Form 2106, and changing the automobile allowance policy.

The full amount of an automobile or expense allowance may now be included as income for those employees that receive it. Any lease or financing expenditure for transportation must be included as a debt in the calculation of the debt-to-income (DTI) ratio. (Note that a 12-month minimum history of receipt of this income continues to be required.)

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Liabilities: Debt-to-Income Ratio Definition

The DTI ratio includes:

- The primary residence monthly housing expenses plus
- Minimum Monthly payment on Revolving charges) If the payment is not reflected on the credit report, 5% of the outstanding balance will be used.)
- Scheduled monthly payment of Installment debts with 10 or more remaining payments (automobile leases must be included in the DTI even if fewer than 10 payments remain)
- PITIA of any non-rental Real estate loans on personally held property (e.g., second home)
- Real estate net rental losses (gains are credited to income) from all investment properties owned. Commercial properties are excluded when the borrower is not personally liable.
- Child support payments with 10 or more remaining payments (Alimony/Maintenance is a debt, but can be subtracted from income)
- Court-ordered (or settlement agreement) obligations, if applicable, for divorced or separated borrowers
- Student loans, whether deferred, in forbearance, or in repayment the payment noted on the credit report or monthly account statement, OR 1% of the unpaid balance

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 (typically covering the most recent two months) are used for Earnest Money, Down Payment, Closing Costs, Prepaids and Reserves, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan need to be documented and 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).

Earnest Money is considered seasoned when supported by payroll/income deposits in the 60 days leading up to the withdrawal of the Earnest Money. Non-payroll/income deposits need to be sourced to determine if they are an acceptable source of closing cash. Fannie Mae guides on acceptable sources of down payment and closing costs can be used.

Gift Funds:

Gift funds may be used to fund all or part of the down payment, closing costs, or financial reserves on a Purchase transaction of a Primary Residence, subject to the minimum borrower contribution requirements below:

- 5% minimum Borrower contribution when LTV > 75%
- 0% minimum Borrower contribution when LTV <= 75%

[NOTE: Gifts are not allowed on Second Homes or Investment properties.]

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. If your relative (or donor that meets FNMA eligible donor definition) is your real estate agent but no other party to the transaction (builder, developer, broker, seller, etc) this is the one exception; however, the gift must be sourced and received prior to close and commission for the transaction cannot be used for gift.

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

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

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

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

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

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

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

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

Gift of Equity:

Gifts of equity on non-arm's length transactions are allowed. Transactions with gifts of equity are subject to the maximum LTVs available for cash-out transactions, and minimum of 5% of borrower contribution is required.

The following requirements apply:

- Primary residence transactions only
- Gift of equity is from an immediate family member
- Six months of reserves required of borrower's own funds
- Non-arm's length criteria is met

- Signed gift letter is provided
- Gift of equity is listed on the settlement statement

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 maybe 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 50% owner of the business. The Lender must determine that the withdrawal of funds will not have a negative impact on the business by one of the following methods based upon the income documentation.

24 or 12 Month Business Bank Statement (May use one of the following methods)

A signed letter from a licensed/certified tax preparer or borrower verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If borrower letter provided Borrower to detail the minimum obligations the business must cover in the next 60 days and compare it to the anticipated income to indicate that sufficient cash flow will exist after withdrawal of funds used for closing.

Business Expense Coverage: Using the most recent business bank statement(s) used for income documentation perform the following calculation;

- Most Recent Statement(s) Ending Balance(s)
- (Plus) Funds Available from Personal Account(s)
- (Minus) Transaction Down Payment
- (Minus) Transaction Closing Costs
- (Minus) Program Required Reserves
- = Funds Available for Business Expense Coverage

Funds Available for Business Expense Coverage must be a positive number and reflect:

- A minimum of 2 months of average expenses as reflected on the P&L or as determined by using the expense factor; or
- The balance sheet for the business must reflect positive working capital.

Working capital is the difference between the current assets less current liabilities. The result represents the maximum amount of business funds available to use towards down payment, closing cost and reserves

Assets: Reserves

The FundLoans Bank Statement 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.

Reserve requirements are waived for Rate-And-Term Refinance transactions when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. (Waiver not eligible for DTI greater than 50%)

For Debt consolidation loans on Primary residences meeting requirements under Debt Consolidation section of this guide the reserve requirement is reduced to 1 month required.

Additional Reserves - 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.

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

In order to provide additional guidance on what flexibilities FundLoans may consider, the table below provides practical examples of the nature and level of compensating factors that should be in place in order to request an exception to our program guidelines.

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

Property condition, location, and lack of broad market appeal can inhibit our ability to grant exceptions even when significant compensating factors exist in the borrower's profile. However, historically over 25% of loan requests involve guideline variances for which the borrower's compensating factors allow us to proceed to funding.

FundLoans encourages originators to speak with their Account Executive anytime our guideline flexibility can help create a solution for your "near miss" borrowers.

	EXCEPTION MATRIX	MINIMUM COMPENSATING FACTORS (Must have at least 3 factors from options listed)
LTV	LTV 5% above Guides/Matrix max (not to exceed 85%)	• Reserves 3 months greater than matrix requirements • 10% (or more) reduction in Total Monthly Debt • DTI of 37% or less • Residual income in excess of $5000 per month • FICO at least 20 points above matrix requirement
FICO	FICO 10 points or less below matrix requirement	• Reserves 3 months greater than matrix requirements • 10% (or more) reduction in Total Monthly Debt • LTV at least 5% below matrix requriement • DTI of 40% or less • Residual income in excess of $5000 per month
	FICO 11 to 20 points below matrix requirement	• Reserves 6 months greater than matrix requirements • 10% (or more) reduction in Total Monthly Debt • LTV at least 10% below matrix requriement • DTI of 37% or less • Residual income in excess of $5000 per month
DTI	DTI 3% above Guides/Matrix (not to exceed 46%)	• Reserves 3 months greater than matrix requirements • 10% (or more) reduction in Total Monthly Debt • LTV at least 5% below matrix requirement • FICO at least 20 points above matrix requirement • Residual income in excess of $5000 per month
	DTI 6% above Guides/Matrix (not to exceed 49%)	• Reserves 6 months greater than matrix requirements • 10% (or more) reduction in Total Monthly Debt • LTV at least 10% below matrix requirement • FICO at least 20 points above matrix requirement • Residual income in excess of $7500 per month
Reserves	Reserves 3 Months below Guides/Matrix requirement (not below 3 months total)	• 10% (or more) reduction in Total Monthly Debt • LTV at least 10% below matrix requirement • FICO at least 20 points above matrix requirement • Residual income in excess of $5000 per month • DTI of 40% or less

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: Automatic Payment Authorization Form

EXHIBIT B: AUTOMATIC DEBIT PAYMENT AGREEMENT (ACH) FORM

Automatic Payment Authorization Form

You must attach a voided check or a savings deposit slip

❑ Yes, I would like to enroll in the free* monthly Automatic Payment Program

Name:	**Street Address:**	**City, State, Zip Code:**
Mortgage Loan Number:		
Daytime Phone Number:	**Evening Phone Number:**	
Financial Institution Name:	**Financial Institution Phone Number:**	
Account Routing Number:	**Account Number:**	❑ **Checking** ❑ **Savings**

***Please note that your financial institution may assess a fee for this transaction.**

Please specify the payment date most convenient for you, which must be within the applicable grace period. **If a payment date is not specified, or your loan is a daily simple interest loan, payments will be deducted on your current loan due date.**

Deduct my payment on the_______________of each month.

I would like additional funds deducted and applied toward reducing my outstanding principal balance.
Please deduct an additional $______________per month.

I hereby authorize_____________________________, including its successors and/or assigns, to initiate transfers from my checking or savings account at the financial institution indicated above for the purpose of making my monthly mortgage payment. I authorize the amount of each transfer to include my regularly scheduled payment including principal, interest and escrow items, reimbursement of corporate advances, optional insurance as applicable and the costs of any services I request.

I understand that, in accordance with the terms of my mortgage note and/or adjustments in my escrow for taxes and insurance, my payment may change from time to time as set forth in my loan documents. You are hereby authorized to change the amount of the draft from my checking or savings account, provided that you notify me of the new payment amount at least 10 days prior to the draft date. I agree that the payment change notice provided to me under the Adjustable Rate Mortgage Provisions of the Truth-in-Lending Act and/or escrow analysis form shall constitute notice of payment change as required by the Electronic Funds Transfer Act and Federal Reserve Board Regulation E.

I HEREBY AGREE TO THE TERMS AND CONDITIONS IN THIS FORM.

Borrower's Signature____Date ______________

CoBorrower's Signature ____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: Alternative Review Form

Alternative Loan Review Form	
Borrower Name:	
Loan Number:	
⌋ Borrower DOES NOT qualify for FHA/FNMA/FHLMC loan programs	
⌋ Borrower DOES qualify for FHA/FNMA/FHLMC loan program (Borrowers who qualify not eligible for FundLoans programs)	
Please list reasons the loan is not eligible for FHA/FNMA/FHLMC loan program (Attach DU/LP Findings for support as applicable): • ____________ • ____________ • ____________ • ____________	
Underwriter Name:	
Underwriter Signature:	
Date of Review:	

Appendix: Borrower Contact Consent Form

BORROWER CONTACT CONSENT FORM

(Information Optional)

To insure we have the correct contact information for servicing your loan, please provide the following information.

By signing I authorize my mortgage servicer (its transfers and/or assigns) to contact me regarding the servicing of my loan using the following contact information.

Mailing address for your mortgage statements and other correspondence:

________Same as the subject property

________Please use this mailing address instead:

____

____

____

Cell phone number:

□ I choose not to provide a cell phone number.

I understand that by providing a cell phone number and by signing this form, I am giving the holder of my mortgage Note and its billing servicer permission to use the cell phone number to contact me regarding my loan.

Borrower (__________) ________________ - ______________________ __

CoBorrower (__________) ________________ - ______________________ __

Email address:

□ I choose not to provide an email address.

I understand that by providing an email address, I am giving the holder of my mortgage Note and its billing servicer permission to use this email to contact me regarding my loan.

Borrower ______________________________@______________________

Co-Borrower ______________________________@______________________

Signature(s)

Borrower ____ .

Date

Co-Borrower ____

_

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?	☐	☐

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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		

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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

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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	

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Appendix: Trust Attorney's Opinion Letter

I, ____, the attorney for

(Trust Attorney's Name)

____, Executed on ___/___/____

(Name of the Trust) (Date)

I certify that I have read the trust and the following items are true:

- The trust was validly created and is duly existing under applicable law,
- The trust is revocable,
- The borrower ________________________is the settlor of the trust and the beneficiary of the trust (Borrower Name)
- The trust assets may be used as collateral for a loan,
- The trustee(s) is/are: ____ (Trustee(s) Name(s))
- The trust has not been revoked, modified or amended in any manner that would cause these representations to be incorrect.

The Borrower, named above, is duly qualified under applicable law to:

- Serve as trustee,
- Is (or may serve) as the settlor,
- Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets

____ Signature

____ Date

For the Subject Property located at:

____

____

Appendix: Guaranty (Legal Entity Members)

GUARANTY

WHEREAS, the undersigned, [ ] (and together with [ ])(called "Guarantor" and collectively called "Guarantors"), are substantially financially or otherwise interested in [ ] (the "Property"), and [ ] Limited Liability Company/Corporation (herein called "Borrower"), the maker of the Borrower's Note in the principal amount of $[ ] payable to [ ] (the "Lender") and its successors and assigns (herein called the "Note"), and it will be of substantial economic benefit to the Guarantors, and each of them, for the Borrower to execute and deliver the Note and borrow the principal sum evidenced thereby and secured by the Mortgage, Deed of Trust or Security Deed therein described (herein called the "Security Instrument"). The Note and the Security Instrument, together with all riders thereto, are collectively referred to herein as the "Loan Documents" .

WHEREAS, as a condition to making the Note to Borrower, Lender requires that Guarantor execute this Guaranty.

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein,, and for other good and valuable considerations, the receipt and sufficiency of all of which are hereby acknowledged, and in order to induce any person or persons who may be and become the holder of the Note to accept the same, the Guarantors, and each of them, hereby jointly and severally agree as follows:

1. The Guarantors, and each of them, hereby jointly and severally, unconditionally, absolutely and irrevocably guarantee, for the benefit of each and every present and future holder or holders of the Note (all herein called the "Obligees"), the full and prompt payment and performance when due, whether at maturity or earlier, by reason of acceleration or otherwise, and at all times thereafter of:
    a. the principal of, interest on, and all other amounts due at any time under the Note or any other Loan Document, including prepayment penalties, late payment charges, interest charge at the default rate (if applicable), and accrued interest as provided in the Loan Documents, advances, costs and expenses to perform the obligations of Borrower or to protect the Property or the security of the Security Instrument;
    b. the payment and performance of all other obligations (including indemnity obligations) of Borrower under the Loan Documents;

c. c. all expenses and costs, including reasonable attorneys' fees and expenses, fees and out-of-pocket expenses of expert witnesses and costs of investigation, incurred by Lender as a result of any Event of Default under the Loan Documents or in connection with efforts to collect any amount due under the Loan Documents, or to enforce the provisions of the Loan Documents, including those incurred in post-judgment collection efforts and in any bankruptcy or insolvency proceeding or any judicial or non-judicial foreclosure proceeding or other exercise by lender of its rights and remedies under any Loan Document (a "Foreclosure Event"), including any action for relief from the automatic stay of any bankruptcy proceeding or Foreclosure Event, to the extent permitted by law; and

d. all costs and expenses, including reasonable fees and out-of-pocket expenses of attorneys and expert witnesses, incurred by Obligee in enforcing its rights under the Guaranty (1a., 1b., 1c. and 1d. collectively are herein defined as "Indebtedness Hereby Guaranteed").

2. This Guaranty shall be a continuing guaranty, shall be binding upon the Guarantors, and each of them, jointly and severally, and upon their respective heirs, administrators, successors, legal representatives and assigns, and shall remain in full force and effect, and shall not be discharged, impaired or affected by

i. the existence or continuance of any obligation on the part of the Borrower on or with respect to the Indebtedness Hereby Guaranteed, or any obligation under the Note, the Security Instrument or any other Loan Document, or under this Guaranty (collectively, the "Obligations");
ii. the power or authority (or any lack thereof) of the Borrower to issue the Note or to execute, acknowledge or deliver the Note or the Security Instrument or any other Loan Document;
iii. the validity or invalidity of the Note or the Security Instrument or any other Loan Document;
iv. any defense whatsoever that the Borrower may or might have to the payment of the Indebtedness Hereby Guaranteed or to the performance or observance of any of the terms, provisions, covenants and agreements contained in the Note or the Security Instrument or other Loan Document;
v. any limitation or exculpation of liability on the part of the Borrower;
vi. the existence or continuance of the Borrower as a legal entity;
vii. the transfer by the Borrower of all or any part of the Premises referred to in the Security Instrument (herein called the "Premises") to any other corporation, person or entity;
viii. any sale, pledge, surrender, indulgence, alteration, substitution, exchange, change in, increase in, extension, modification or other disposition of any of the Indebtedness Hereby Guaranteed or Obligations, all of which the Obligees are hereby expressly authorized to make from time to time without notice to the Guarantors or any of them, or to anyone;
ix. the acceptance by the Obligees, or any of them, of any security for, or other guarantees upon, all or any part of the Indebtedness Hereby Guaranteed or Obligations;
x. any failure, neglect or omission on the part of the Obligees, or any of them, to realize or protect any of the Indebtedness Hereby Guaranteed or any collateral or security therefor, or to exercise any lien upon or right or appropriation of any moneys, credits or property of the Borrower toward the liquidation of the Indebtedness Hereby Guaranteed or any application of payments or credits thereon;
xi. any right, claim or offset which Guarantors may have against Borrower; or
xii. any defense (other than the payment of the Indebtedness Hereby Guaranteed and performance of the Obligations in accordance with its terms) that the Guarantors, or any of them, may or might have to their respective undertakings, liabilities and obligations hereunder, each and every such defense being hereby waived by the Guarantors and each of them; it being understood and agreed that this Guaranty, and the undertakings, liabilities and obligations

of the Guarantors, and each of them, hereunder, shall not be affected, discharged, impaired or varied by act, omission or circumstance whatsoever (whether or not specifically enumerated above) except the due and punctual payment of the Indebtedness Hereby Guaranteed and performance of the Obligations, and then only to the extent thereof.

The Obligees shall have the exclusive right to determine how, when and what application of payments and credits, if any, shall be made on the Indebtedness Hereby Guaranteed or the Obligations, or any part thereof; and in order to hold the Guarantors, or any of them, liable hereunder, there shall be no obligation on the part of any Obligee, or anyone, at any time, to proceed against the Borrower, its properties or estates, or to proceed against any other Guarantor, or to resort to any collateral, security, property, liens or other rights or remedies whatsoever.

3. The death of any Guarantor shall not terminate this Guaranty as to any surviving Guarantor, and shall not terminate this Guaranty as to the estate of the deceased Guarantor.

4. The Obligees, or any of them, shall have the right to enforce this Guaranty against any Guarantor for and to the full amount of the Indebtedness Hereby Guaranteed, with or without enforcing or attempting to enforce this Guaranty against any other Guarantor or any security for the obligation of any of them, and whether or not proceedings or steps are pending or have been taken or have been concluded to enforce or otherwise realize upon the obligation or security of the Borrower or any other Guarantor; and the payment of any amount or amounts by any Guarantor, pursuant to his obligation hereunder, shall not in any way entitle such Guarantor, either at law, in equity or otherwise, to any right, title or interest (whether by way of subrogation or otherwise) in and to any of the Indebtedness Hereby Guaranteed, or any principal or interest payments theretofore, then and thereafter at any time made by the Borrower on the Indebtedness Hereby Guaranteed, or made by anyone on behalf of the Borrower, or in and to any security therefor, unless and until the full amount of the Indebtedness Hereby Guaranteed has been fully paid.

5. No release or discharge of any Guarantor shall release or discharge any other Guarantor unless and until all of the Indebtedness Hereby Guaranteed shall have been fully paid and discharged and all Obligations shall have been fully performed; and the failure or refusal of any Guarantor named herein to execute this Guaranty shall not release, affect or reduce the liability of any other Guarantor.

6. No act of commission or omission of any kind, or any time, on the part of any Obligee, in respect to any matter whatsoever, shall in any way affect or impair this Guaranty; and time is of the essence hereof.

7. All diligence in collection or prosecution, and all presentment, demand, protest and/or notice, as to any of the Guarantors, of dishonor and of default and of non- payment and of the creation and existence of any and all of the Indebtedness Hereby Guaranteed or of performance or non- performance of any Obligation, and of any security and collateral therefor, and of the acceptance of this Guaranty, and of any and all extensions of credit and indulgence hereunder, are expressly waived by the Guarantors, and each of them.

8. Any Obligee may, without any notice whatsoever to anyone, sell, assign or transfer all or any part of the Indebtedness Hereby Guaranteed, or grant participations in the Indebtedness Hereby Guaranteed, and in any and every such event, each and every immediate and successive assignee, transferee, holder of or participant in all or any part of the Indebtedness Hereby Guaranteed shall have the right to enforce this Guaranty by suit or otherwise, for the benefit of such assignee, transferee, holder or participant, as fully as if such assignee, transferee, holder or participant were herein by name specifically given such rights, powers and benefits.

9. This Guaranty, and each and every part hereof, shall be binding upon the Guarantors, and each of them, jointly and severally, and upon the heirs, administrators, legal representatives, successors and assigns of each of the Guarantors, and shall inure to the pro rata benefit of each and every future holder of the Note or any interest in the Indebtedness Hereby Guaranteed.

10. The delivery of the Note for value to any person shall, without more, constitute conclusive evidence of the acceptance hereof, and of the reliance hereon by each and every from time to time holder of the Note or any interest in the Indebtedness Hereby Guaranteed.

11. Guarantor acknowledges and agrees that Obligee is authorized to obtain a credit report (if applicable) on Guarantor at any time

12. As used herein, the masculine gender shall include the feminine, and the singular case shall include the plural and the plural the singular, wherever the same may be applicable.

13.The obligation and liability of each Guarantor shall for all purposes be a joint and several obligation and liability for all of the Indebtedness Hereby Guaranteed.

14. Notwithstanding any modification, discharge or extension of the Indebtedness Hereby Guaranteed or any amendment, modification, stay or cure of the Obligees' rights under the Note, Security Instrument or other Loan Document which may occur in any bankruptcy or reorganization case or proceeding affecting the Borrower, whether permanent or temporary, and whether or not assented to by the Obligees, the Guarantors hereby agree that they shall be obligated hereunder to pay the Indebtedness Hereby Guaranteed and discharge the other Obligations in accordance with the terms of the Note, Security Instrument and other Loan Documents and the terms of this Guaranty as in effect on the date hereof.

15. Each Guarantor understands and acknowledge that by virtue of this Guaranty such Guarantor has specifically assumed any and all risks of a bankruptcy or reorganization case or proceeding affecting the Borrower; and, as an example and not by way of limitation, a subsequent modification of the Note, Security Instrument or other Loan Documents in any reorganization case concerning the Borrower shall not affect the obligation of such Guarantors to pay the Note and all other Indebtedness Hereby Guaranteed and to perform and observe all obligations in accordance with the original terms thereof.

16. Each Guarantor hereby agrees that if at any time all or any part of any payment theretofore applied by any of the Obligees to any Indebtedness Hereby Guaranteed is rescinded or returned by any of the Obligees for any reason whatsoever (including, without limitation, the insolvency, bankruptcy, liquidation or reorganization of any party), the Indebtedness Hereby Guaranteed shall, for the purposes of this Guaranty, be deemed to have continued in existence to the extent of such payment, notwithstanding such application by any of the Obligees, and this Guaranty shall continue to be effective or be reinstated, as the case may be, as to the Indebtedness Hereby Guaranteed, all as though such application by any of the Obligees had not been made.

17. Guarantors each hereby agree that this Guaranty shall be interpreted under and governed by the laws of the State of Delaware.

18. The Guarantors each hereby acknowledge and agree that for all purposes hereof all actions or proceedings in any way, manner or respect arising out of or relating to this Guaranty and the transactions contemplated herein (herein generally called "Litigation"), shall be litigated only in courts having situs in the Applicable County or in Federal Court in the District in which the Applicable County is located. The Guarantors and each of them hereby consent and submit to the jurisdiction of any local or State court located within the Applicable County or any Federal Court in the District in which the Applicable County is located. The Guarantors and each of them hereby waive any right they or any of them may have to transfer or change the venue of any Litigation brought against Guarantors or any of them. The Guarantors and each of them hereby irrevocably waive the right to trial by jury with respect to any Litigation.

19. It shall be an Event of Default under this Guaranty and under the other Loan Documents in the event that: any Guarantor shall be dissolved, die or be adjudged legally incompetent and either (i) substitute collateral, or (ii) a replacement guarantor with sufficient creditworthiness to support the obligations, that is acceptable to Obligees in Obligees' sole discretion, is not found within sixty (60) days of said guarantor's dissolution, death or having been adjudged legally incompetent; or

20. This Guaranty may be executed in separate counterparts and such counterparts, taken together, shall constitute a fully executed and enforceable Guaranty.

21. If any one or more of the provisions or terms of this Guaranty shall be held invalid, pursuant to applicable state law or otherwise, then such provisions or terms shall be deemed severable from the

remaining terms of this Guaranty and shall in no way affect the validity or enforceability of the other provisions of this Guaranty, and only the enforceable terms of this Guaranty shall survive.

21. Guarantor acknowledges, represents and warrants that:

   a. it understands the nature and structure of the transactions contemplated by this Guaranty and the other Loan Documents;
   b. it is familiar with the provisions of all of the documents and instruments relating to such transactions;
   c. it understands the risks inherent in such transactions, including the risk of loss of all or any part of the Property or of the assets of the Guarantor;
   d. it has had the opportunity to consult counsel;
   e. it has not relied on Lender or any Obligee for any guidance or expertise in analyzing the financial or other consequences of the transactions contemplated by this Guaranty or any other Loan Document or otherwise relieved on Lender or any Obligee in any manner in connection with interpreting, entering into or otherwise in connection with this Guaranty, any other Loan Document or any of the matters contemplated hereby or thereby.

IN WITNESS WHEREOF, the Guarantors have signed and sealed this Guaranty as of the day and year first above written.

[Name] / Social Security Number:

Address:

Add the above signature block for each guarantor STATE OF)

COUNTY OF)

I, the undersigned, a Notary Public in and for the county and state aforesaid, do hereby certify that as GUARANTOR, personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me in person and acknowledged that he signed, sealed and delivered the said instrument as his free and voluntary act, for the uses and purposes therein and set forth.

Given under my hand and notarial seal this day of , 201[] N

Notary Public