Diamond Express (Fixed or ARM Program)

WVOE and P&L (Borrower or CPA prepared) or Asset Based Income Option*

Diamond Express					
Occupancy	**Purpose**	**Max Loan amount**	**Minimum FICO**	**Property Type**	**LTV/CLTV**
Primary Residence Second Home Investment Property	**Purchase Rate/Term Refi**	$1,000,000	700	1 Unit SFR & PUD	70%
		>$1M to $1.5M	700		65%
		>$1.5M to $2M	700		60%
		$1,500,000	700	Condominium	65%
		$1,500,000	700	2 Units	65%
		$1,500,000	700	3-4 Units	60%
	Cash-Out Refi	$1,000,000	700	1 Unit SFR, PUD, Condo & 2 Units	65%
		>$1M to $1.5M	700	1 Unit SFR, PUD, Condo & 2-4 Units	60%
		>$15M to $2M	700	1 Unit SFR, PUD	60%

***Required 6 or 12 months of P&I Reserves to be deposited to the investor's bank depending on LTV. See ABIO guideline.**

Diamond Express– CRA (Community Reinvestment Act)					
Occupancy	**Purpose**	**Max Loan amount**	**Minimum FICO**	**Property Type**	**LTV/CLTV**
Primary Residence Second Home Investment Property	**Purchase Rate/Term Refi**	$1,000,000	660	1 Unit SFR & PUD	80%
		>$1M to $1.5M	700		75%
		$1,000,000	660	Condominium	75%
		$1,500,000	700		70%
		$1,500,000	700	2-4 Units	80%

CRA-General UW Guidelines

- CRA Portfolio Product must be located in a low / moderate income census tract or have low / moderate income for the given census tract.
- Census tract income level as determined on the FFIEC website. https://geomap.ffiec.gov/ffiecgeomap/
- Low income must be below 50% of the median family income, and moderate income must be below 80% of the median family income as detailed on the FFIEC Website.
- Maximum Front-end / Total Debt-to-Income (DTI) ratio allowed: 45%/50%
- Reserves – 2 months P&I up to $1M loan amount 12 months P&I up to $1.5M in US Financial Institution
- Qualifying Interest Rate: the greater of start rate or fully indexed rate.
- Condos must be warrantable by Fannie Mae
- No minimum borrower contribution on Owner Occupied and Second Homes.
- Gift is allowed for 100% of down payment for all occupancies and properties.
- No gift funds may be used for reserves.
- Subject property cannot be listed for sale at the application date.
- Must be in CA, CO, GA, IL, NJ, TX, VA, and WA.

<table>
<tr><th colspan="2">GENERAL REQUIREMENTS</th></tr>
<tr><td>Underwriting Method</td><td>

Manual Underwriting Only
All compliance requirements must be met with Federal & State regulations.
All Borrowers are subject to the Bank Secrecy Act (BSA), the USA PATRIOT Act, the Customer Identification Program (CIP), the Office of Foreign Assets Control (OFAC) and other applicable legal or regulatory requirements.

</td></tr>
<tr><td>Minimum FICO</td><td>
Diamond Express - 700 with at least two (2) scores per borrower.
Diamond Express-CRA - 660 with at least two (2) scores per borrower.

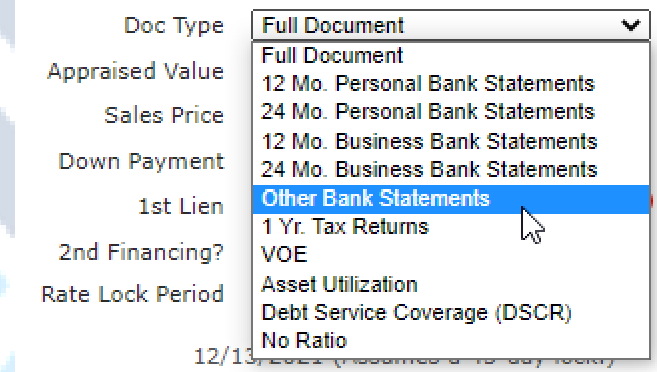
Mid fico or lower of the two scores (per borrower) will be used to qualify.
3 tradelines seasoned for at least 12 months required

</td></tr>
<tr><td>Loan amount</td><td>

Minimum - $150,000
Maximum - $2,000,000

</td></tr>
<tr><td>MEGA LOS
Doc Type Options</td><td>

Other Bank Statement – YTD P&L (Borrower or CPA Prepared)



VOE – Written Verification of Employment (FNMA Form 1005)
Borrower & CPA prepared P&L
Asset Based Income- Asset Utilization

</td></tr>
<tr><td>Program Codes</td><td>
Diamond Express:
<table>
<tr><th>Doc Type</th><th>Code</th><th>Term</th><th>Amort Type</th></tr>
<tr><td rowspan="2">CPA Prepared P&L VOE, or ABIO</td><td>DX7/6</td><td>7/6 30yr ARM</td><td>Full</td></tr>
<tr><td>DX30</td><td>30yr Fixed</td><td>Full</td></tr>
<tr><td rowspan="2">Borrower Prepared P&L</td><td>DX7/6b</td><td>7/6 30yr ARM</td><td>Full</td></tr>
<tr><td>DX30b</td><td>30yr Fixed</td><td>Full</td></tr>
</table>
Diamond Express- CRA:
<table>
<tr><th>Doc Type</th><th>Code</th><th>Term</th><th>Amort Type</th></tr>
<tr><td rowspan="2">CPA Prepared P&L or VOE</td><td>DX7/6-CRA</td><td>7/6 30yr ARM</td><td>Full</td></tr>
<tr><td>DX30-CRA</td><td>30yr Fixed</td><td>Full</td></tr>
<tr><td rowspan="2">Borrower Prepared P&L</td><td>DX7/6b-CRA</td><td>7/6 30yr ARM</td><td>Full</td></tr>
<tr><td>DX30b-CRA</td><td>30yr Fixed</td><td>Full</td></tr>
</table>
</td></tr>
<tr><td>Compliance</td><td>

Section 32 or High Cost loans not permitted
HPML loans not permitted
All loans must pass Reg. Z ATR and QM

</td></tr>
<tr><td>DTI</td><td>
Maximum Front-end/Total Debt-to-Income (DTI) ratio allowed:
Diamond Express : 38%/43%
Diamond Express-CRA : 45%/50%
</td></tr>
</table>

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<tr><td></td><td></td></tr>
<tr><td>Credit Standards</td><td>

We allow a broker provided credit report. All broker provided credit report must have been pulled within 30 days from the loan application date. Otherwise, MCFI will pull a new credit report.
Mortgage/Rent
Max 1x30 in past 12 months
No 90 days lates allowed within 36 months.
Tradelines
3 tradelines seasoned for at least 12 months required.
Bankruptcy / SS&DIL / Foreclosure
3yrs/2yrs/5yrs
Loan Modification
5 years

</td></tr>
<tr><td>Asset / Reserves</td><td>
<table>
<tr><th>Property Type</th><th>Transaction Type</th><th>Required Reserves (Subject PI based on the qualifying rate)</th></tr>
<tr><td rowspan="3">All Property Type</td><td>Loan amount up to $1M</td><td>6 months in US Financial Institution</td></tr>
<tr><td>Loan amount >$1M-$2M & Cash-Out Loans</td><td>12 months in US Financial Institution</td></tr>
<tr><td>Asset Based Income Option</td><td>>=60% LTV – 12 months in the investor’s bank.
<60% LTV – 6 months in the investor’s bank.</td></tr>
</table>

Most recent 2-month bank/asset statements.
Business Funds: may be used up to 100% of current balance if borrower can` demonstrate 100% ownership of the business and transferred into personal bank account.
Stocks/mutual funds/retirements/life insurance cash value (Allowed up to 70% of the value-See ‘Asset’ section, stock/bonds for the value allowance.).
Cash-out proceeds are not eligible as reserves.

</td></tr>
<tr><td>Qualifying Rate</td><td>7/6 ARM – The greater of the note rate or fully indexed rate is used to determine the qualifying PITIA.
The fully indexed rate is calculated by adding the margin to the index.
Qualifying rate will be determined by the date which was locked.</td></tr>
<tr><td>Reserves</td><td>Subject property PI reserves are based on the qualifying rate.</td></tr>
<tr><td>Index</td><td>SOFR 30 Day Avg index</td></tr>
<tr><td>ARM term</td><td>
<table>
<tr><th>TERMS</th><th>CAPS</th><th>INDEX</th><th>MARGIN</th></tr>
<tr><td>7/6 ARM</td><td>5/1/5</td><td>SOFR</td><td>See Rate sheet</td></tr>
</table>
</td></tr>
<tr><td>Approved States</td><td>CA, CO, GA, IL, NJ, TX, VA, and WA</td></tr>
<tr><td>Gift</td><td>Gift is allowed for 100% of down payment for all occupancies and properties.</td></tr>
</table>

	No gift funds may be used for the reserves.
Contributions	There is no required minimum borrower contribution to the down payments and closing costs on all occupancy types. **All Asset-Based Income Option will still require borrower's own funds to validate the income even if no minimum contribution is required for down payment and/or closing costs.** Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of, the subject property. IPCs may not exceed 3% of the sales price for primary and second home ownership, or 2% for non-owner occupied properties. IPCs may be used towards closing costs only, not for repair or down payment or reserves. If the transaction is an acceptable at-interest transaction in which the realtor/broker is also the borrower or is an immediate family member of the borrower, the realtor/broker commission cannot be used towards down payment, closing costs, or reserves.
Appraisal Requirement	One Full Appraisal and one CDA (Clear Capital) regardless of the loan amount. A transferred appraisal report is allowed. Follow FNMA guidelines. (Clear Capital CDA report is required) ***The CDA final opinion of value must be within 10% from the lesser of the appraisal value or the purchase price (If applicable). If the CDA produces a value that deviates more than 10% negatively, the 2nd appraisal report must be provided to support the value. When the 2nd appraisal report is required, LTV will be based on the lower of the two appraisal values or the purchase price (If applicable). **Age of Appraisal** The effective date of the appraisal report must be dated within 120 days of the Note date. If the effective date of the appraisal report is more than 120 days but less than 180 days from the Note date, the appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the effective date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 days prior to the Note date. **Appraisal Review & Evaluation** As the underwriter evaluates a file to determine its eligibility for a loan, he/she considers the collateral property's marketability and justification of its value. Factors that affect marketability and value include the comparability of the subject property with surrounding structures and land use, condition and appeal of the property, quality of construction and equipment, characteristics of design, and the local home market real estate trends. Information regarding these factors is documented on the appraisal, most inclusively on the Universal Residential Appraisal Report (URAR). There are three approaches generally used by the appraiser to establish value. These are the cost approach, the sales comparison analysis/market value analysis (market approach), and the income approach. For residential properties of 1-4 units, the market and cost approaches are the appraisal methods most widely used so therefore the Bank only accepts values based on these two approaches. All residential appraisals and Evaluation reports should be made on an "as is" basis unless: • The appraisal is made "subject to" repair alterations and/or conditions, which the appraiser lists in the comment section or by addendum.

- The property and appraisal is “subject to completion per plans and specifications.”

In both cases above, the appraiser must make a subsequent inspection of the subject and verify that such repairs, alterations or construction have been completed as represented in the appraisal, and the appraiser must complete an Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) to verify compliance with his or her original appraisal conditions. A photograph attachment showing completion should be attached. When the appraiser makes the appraisal “subject to” any repairs, the repairs must be a requirement of loan approval. The repair work must be completed prior to funding unless part of the approval funds is to be withheld to cover the cost of the repairs. Proof of completion of such repairs must be in writing in the funding, signed and dated by the appraiser.

1. Property Location
Rural properties may require additional analysis due to lack of available comparables and limited utilities and services. Any “fair” or “poor” ratings regarding the subject neighborhood should be explained.

2. Property Values
Declining property values represent higher, possibly unacceptable risk because of the potential for a loss in borrower equity. The rate of decline is a key factor. The appraiser must comment on how the value was determined under the declining market condition and the reason for the current declining market situation.

3. Demand/Supply (Marketability)
An oversupply of housing units—within a neighborhood or citywide—may reflect problems with marketability. The reason for an oversupply and its effect on the property’s value requires explanation from the appraiser.

4. Occupancy
High-vacancy rates or an abundance of tenant occupants indicates that the neighborhood may be oriented to rental rather than owner-occupied housing.

5. Predominant Value
A property whose value falls outside the neighborhood price range or is at the extreme high or low end of the range may be a higher-risk property. Compatibility should be supported by use of similar properties from the same neighborhood and explained by the appraiser.

6. Land Use and Land Use Change
A strong residential base is important to overall neighborhood desirability. Non-compatible land use (for example, a high percentage of commercial or industrial land usage) could negatively affect marketability. Change in land usage can have a significant effect, positively or negatively, on the long-range value of the property and requires explanation from the appraiser.

7. Neighborhood Comments
Factors that affect the marketability of the properties in the neighborhood, such as proximity to employment and amenities and employment stability and appeal to the market, require an explanation from the appraiser. Analysis could include economic trends, location influences and neighborhood amenities.

8. Market Conditions
Market conditions and trends should be supported by statistical information.

9. Zoning Compliance
The property should be zoned as “residential.” Highest and best use as improved should be the “Present use.” Properties with commercial zoning should exhibit no negative impact on marketability or habitability as residential properties and should not change the residential character or atmosphere of properties. The majority of the uses on the subject property's street must also be 1-4 family and at least two of the comparable sales must be from the Subject Property's immediate neighborhood and have the same zoning. Properties with

	agricultural zoning must be verified that property is residential in nature, its residential use is a permissible use under the zoning classification and its use does not primarily involve commercial activities such as farming or ranching. Residential properties with commercial and agricultural zoning should reflect the current usage as the highest and best use and be eligible to be rebuilt in the case of partial or total destruction and 100% rebuild letter from the city/county required. **10. Utilities** The source and type of all utilities should be identified. Utilities which are not typical for the area increase risk. **11. Off-Site Improvements** Private road maintenance should be identified. If the condition or adequacy of a private road is not typical, an explanation is required. **12. Drainage/Flood Hazard** Drainage problems or the existence of a flood hazard condition require explanation from the appraiser. Such conditions or major problems may require physical correction or flood hazard insurance. **13. Site Comments** Adverse site conditions, including adverse easements, encroachments, or special assessments may affect the value or marketability and require explanation by the appraiser. **14. Improvements** A property's physical features should be most like other similarly sized dwellings in the market. If characteristics are not similar—for example, a room list that is not typical for the market, or heating that is unusual or not in good condition—they may affect market appeal. The affect the non-conformity has on value and marketability requires explanation from the appraiser. Construction components and special features should be similar to other properties in the marketplace. Amenities that do not meet market expectations may negatively affect marketability. **15. Condition of Improvements** Property improvements should be at least in average condition and should not negatively affect the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components, including the roof, foundation, plumbing, electrical, and heating, may be an issue. Incurable structural factors that are not typical for the market—for example, a room list that is unusual or location of rooms that is not typical—may decrease the value and market acceptance of the property. Curable structural factors may be acceptable under certain conditions when properly justified. Homes with energy efficiency improvements are eligible when marketability can be justified through comparable sales, and any additional cost is supported by the market. The Bank underwrites these properties based on the evaluation of the individual loan and does not generally have special documentation requirements or ratio guidelines for energy efficient properties except for Solar Panels. For properties with solar panels, copy of purchase contract or lease agreement for solar panel must be reviewed to determine if there is any recurring monthly payment. Any monthly payment must be included in debt-to-income calculation. If solar panel contract is recorded as a lien against subject property, it cannot be in a first lien position. For purchase transaction, if borrower assumes the existing solar panel contact from the current owner/seller, assignment of lease or similar documents must be reviewed to determine the term and validity of transfer. **16. Adverse Environmental Conditions** Environmental items that have a negative effect on value—such as proximity to a hazardous waste site—must be identified and fully explained. Comparables should have similar environmental conditions. Generally, properties with material environmental hazards are ineligible for a loan. The effects of such hazards on the safety, value, and marketability of the property make it

	unacceptable collateral for low down payment lending. The Bank may require removal of such hazards as a closing condition. **17. Property Condition and Quality of Construction of the Improvements** The Condition and Quality ratings must be based on a holistic view of the property and any improvements. When selecting the Condition and Quality ratings, an appraiser must: • Consider all improvements to determine an overall Condition and Quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety. • Describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the Condition and Quality ratings for comparable properties must be made on an absolute basis, not on a relative basis, and reflect the property as of the date of sale of that comparable property. Note: These requirements also apply to all other ratings or descriptions, including the View and Location. When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction. Note: Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to Conditions and Quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form in an addendum. **Acceptable Property Condition and Quality Ratings:** • Condition Rating Range: C1 – C5 • Quality Rating Range: Q1 – Q5 **Changes to the Appraised Value** Particular attention and extra due diligence must be instituted for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Any appreciation within 12 months greater than 20% of the previous sale value, will require additional explanation from the original appraiser. If the appreciation occurred in under 6 months, one of the following conditions must be added to further address excessive value or undue appreciation: • Field Review **SFR w/ADU & 2-3 units with an ADU are eligible if they are permitted. 4-unit w/ADU is not eligible.** **Additions without Permits** If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property. **1. Attached Un-Permitted Additions**

	When reviewing a property with an attached un-permitted addition, the appraiser should address and comment on the following items: • Describe the un-permitted work and whether is it common for the area. • Is there a health or safety issue? • Does zoning permit the type of work that was done? • Was value given to the un-permitted addition? If value is given, it must be supported by comps. • What is the effect of the un-permitted addition on the marketability of the property? • If a permit was required for the work done, state what the consequences/penalties of not having obtained a permit for the work are. **2. Detached Un-Permitted Additions** When reviewing a property with a detached un-permitted addition or accessory dwelling unit that does not comply with zoning, the property may be eligible if the appraiser addresses and comments on the following items: • The current use conforms to the subject neighborhood and to the market. • The property is appraised based upon its current use. • The appraisal must report that the improvements represent a use that does not comply with zoning. **HPML Appraisal Rule** Mega will follow the HPML Appraisal Rule's provision for all applications received. Two appraisals are required to be delivered for flip transactions as defined by the CFPB. Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/.
Property Listed for Sale	Subject property cannot be listed for sale at the application date for R&T and C/O
Ineligible Properties	• Vacant land or land development properties • Leasehold • Properties that are not readily accessible by roads that meet local standards. • Agricultural properties, such as farms or ranches • Boarding Houses • Bed and breakfast properties. • Properties that are not suitable for year-round occupancy regardless of location • Manufacture homes. • Mobile homes • Properties in non-residential zoning • Mixed use properties • Title to the property not held as fee simple. • Co-Operatives (CO-Ops) • Non-warrantable Condos • Unique property
Interest Only	Not available
Prepayment Penalty	Not available

Escrow Policy	• Flood Insurance must be impounded on all Flood Zone Area properties (SFR, Multi-Units, Detached Condo/PUD)

Eligible Borrowers	• U.S. Citizen - U.S. citizen must provide a valid identification card (e.g. driver's license) to document the residency. In addition, if social security issued date disclosed on the credit report is less than 5 years old, copy of passport or proof of the citizenship will be required.
	• Permanent Resident - A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident Card. A permanent resident must document legal residency with one of the following:
	  o A valid and current Permanent Resident card (form I-551) with photo.
	  o A passport stamped "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until _______. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card. See http://www.uscis.gov/ for more information.
	• Non-Permanent resident alien
	Eligible without guideline restrictions. All borrowers signing the mortgage note must have a valid Social Security Number. A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Valid visa and passport required.
	Legal Status Documentation: • Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA
	• Visa must be current. If the visa will expire within six (6) months of the loan closing date, additional documentation is required. Document that extension steps and fees paid as shown by the USCIS website. • When applicable, valid employment authorization doc (EAD) required for US employment if not sponsored by current employer. DACA EAD borrower is eligible if the borrower can provide a legal status.
	• **Ineligible borrowers**
	The following borrowers are ineligible:
	• Land Trust
	• Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction
	• 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.
	• Asylum applicants.
	• Foreign Nationals
	• Loans to Trusts - An inter-vivos revocable trust/living trust/revocable living trust are not allowed. Trust/business entity vesting are not allowed.
	• Power of Attorney ("POA") – Not allowed.
	• Non-occupant Co-Borrower - Non-occupant co-borrower is not allowed.

Occupancy Types	When underwriting a loan, the occupancy type of the property must be considered. The property may be a primary residence, a second/vacation home, or an investment property. For primary residence, the feasibility of a borrower occupying the subject property must be considered. On refinance transactions, the current address reported on the loan application must be compared to the addresses listed on the credit report and other documents. A full explanation is required for any red flags or inconsistencies noted in the past 12 months.

	1. Primary Residence A property is considered a primary residence if it is occupied by the borrower for at least 6 months during the year. CLC may require verification of intent to occupy. In order to be considered a primary residence, property must be physically occupied by the borrower within 30 days of closing and the property is within reasonable commuting distance from the borrower's employment. Seller rent back is allowed up to 30 days. Purchases with evidence (listed on Appraisal, purchase contract, et al.) of a rent-back to the seller for greater than 30 days are required to close as an investment property. **2. Second/Vacation Home** A second home is a property that the borrower occupies for some portion of the year, in addition to their primary residence. The property must be located in an area that can reasonably function as a second home and must be suitable for year-round occupancy. Second home must be located near either a resort or vacation area, such as mountains, oceanfront, and desert. Second home may also be located in a major metropolitan area that the borrower visits on a regular basis. If the property is not located in a vacation/resort area, a letter of explanation from the borrower stating the reason for purchasing the property must be obtained. The borrower must have exclusive control over the property and the property must not be subject to any kind of time-sharing agreement, rental pools, or agreements that require the borrower to rent, share or give management firm control over occupancy. Rental income may not be used to qualify the borrower. **3. Investment Property** An investment property is owned but not occupied by the borrower. The property must be suitable for year-around rental and occupancy.

Multiple Financed Properties for the same Borrower	• Limits on the Number of Financed Properties
	    ○ If the subject property is a primary residence or second home, there is no limit to the number of financed properties. If the subject property is an investment property, the borrower may own or be obligated on up to 10 financed properties.
	    The financed property limit applies to the borrower's ownership of one-to four-unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property.
	• Aggregate Lending Limit for Borrowers with Multiple Financed Properties with MCFI
	    ○ Multiple financed properties with MCFI by the same borrower is restricted to $10,000,000 maximum aggregate loan amount.

Qualifying Income	Income stability generally reflects a borrower's future ability to maintain mortgage payments as well as or better than employment stability does. For qualification purposes, income must be stable and likely to continue. When evaluating income stability, MCFI generally requires a work history of two years at the same place of employment or in a similar field. If the borrower has had more than one job, MCFI considers the reasons for job changes and length of time employed, as well as transferability of job skills. If a borrower has changed jobs in order to increase pay or benefits incrementally, or to gain greater job security, these circumstances are viewed as positive underwriting offsets. Extended periods of unemployment represent a major concern. All employment gaps should be explained in a letter from the borrower. Income documents including Verification of Employment, Profit & Loss Statement, and CPA Letter must be no more than 90 days old on the date of loan closing. When consecutive income documents are in the loan file, the most recent document is used to determine whether it meets the age

requirement. If income documents are older than allowed, updated documents must be obtained.

If the Asset Based Income Option of this loan program is chosen, the borrower will only be required to provide an Asset Based Income on the Loan Application (1003). This income will be utilized to calculate qualifying debt to income ratio discussed in Asset Based Income Option Section of these guidelines.

- **Salaried Borrowers/WVOE** - Salaried borrowers receive a consistent wage or salary from an employer in return for a service rendered and have no ownership or less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. If hourly, the number of scheduled hours must be addressed. The income that is verified must be converted into a monthly dollar amount for use on the formal application (FNMA Form 1003). At the discretion of the underwriter, supplementary documentation of income may be requested. Salary income must be compared and supported by the nationwide averaged income posted on Salary.com.

  The probability of continued employment must be considered. Caution should be exercised in considering this item as negative comments from an employer could indicate a possible problem in the applicant's ability to repay the loan.

  All applicants must have two years of verified employment. If the applicant has not been on their present job for two years, verification of previous employment must be obtained to cover a two-year period. Employment by family members is not acceptable. No home-based employment is allowed.

  Documentation Requirements
  A written verification of employment ("VOE") form (FNMA Form 1005 Only- WVOE from 'The Work Number' is allowed.) must contain the following information:
    - Dates of employment.
    - Position.
    - Prospect of continued employment, when available.
    - Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week.
    - Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.

  A written verification of employment form (FNMA Form 1005) must be used, and it must be sent directly to the employer to the attention of the personnel department, accounting department, or any other personnel who has the authority to verify such information.
    - **Raises**
      Raises can be considered in qualifying if the borrower has sufficient work history with his/her employer (at least 2 years) and the new increase is consistent with previous increases and verified by the employer. The raise in pay must be effective before the funding date.
    - **Bonus or Overtime**
      Bonus or overtime income is variable compensation paid in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least two consecutive years. If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the new position. Documentation from the employer is required to verify two-year history of receipt of this income and the

	likelihood of its continuance at least the same or greater level. If bonuses and overtime represent 25% or more of the applicant's total income, additional supporting documentation and letter of explanation will be required. • **Self-Employed Borrowers -** If an applicant is self-employed, the stability of the applicant's income must be established. A self-employed applicant is an individual who has total or proportionate ownership of a business. That business may be a sole proprietorship, a partnership, or a corporation. At least a two-year history of self-employment is required to establish and document a stable income level. Documentation Requirements ○ For application received on or before 6/30- Signed YTD and one (1) full year of Profit & Loss statement. ○ For application received on or after 7/1 – Signed YTD Profit & Loss statement. ○ All Profit & Loss statements may be completed by a verified, independent third party. ○ CPA letter verifying business ownership percentage in the same line of business over the last two years at the same location. CPA or licensed independent third-party tax preparer (Enrolled Agent, CTEC and PTIN) license must be verified. CPA letter must be provided by the CPA or licensed independent third-party tax preparer who filed borrower's tax returns. CPA or licensed independent third-party tax preparer must verify that he/she had filed borrower's most recent 2 years business tax returns. Self-employed borrower who filed his/her own tax returns is not eligible. ○ Two years of current Business license.
Asset Based Income Option Documentation (ABOI) Requirements **Purchase & R/T transaction only.** **No Cash-out.**	**1. Salaried Borrowers** A verbal verification of employment ("VOE") form must contain the following information: • Dates of employment. • Position. • Prospect of continued employment, when available. The employment verification documentation must be consistent with the information listed on the loan application and the employment section of the borrower's credit report. If the employment on the credit report is contradictory to the application, or if no employment information is listed on the credit report for the past two years that coincides with the employment listed on the application, other 3rd party verification of the employment must be provided (i.e. Lexis Nexis). Foreign Income and/or Employment is not acceptable on Asset Based Income Option. Further verification of the income will be documented through the assets reported (Purchase Loans) or payment history (Rate & Term Refinances) to meet ATR requirements. If the reported asset is a joint account with other than direct family member, asset may not be used to validate the income. For Rate & Term Refinances, the payment history must be available to validate that the borrower has been able to sufficiently make the current mortgage payment on subject property. If the current mortgage is not on the borrower's credit, the borrower must provide 12 months of cancelled checks to validate that they have been making all payments on time as agreed. Paying off of a Reverse Mortgages on subject property is not eligible for Asset Based Income Option as a Rate & Term Refinance. **2. Self-employed Borrowers**

	• CPA letter verifying business ownership in the same line of business over the last two years at the same location. CPA or licensed independent third-party tax preparer (Enrolled Agent, CTEC and PTIN) license must be verified. CPA letter must be provided by the CPA or licensed independent third-party tax preparer who filed borrower's tax returns, OR, • Two years of current Business license. The employment verification documentation must be consistent with the information listed on the loan application and the employment section of the borrower's credit report. If the employment on the credit report is contradictory to the application, or if no employment information is listed on the credit report for the past two years that coincides with the employment listed on the application, other 3rd party verification of the employment must be provided (i.e. Lexis Nexis). Foreign Income and/or Employment is not acceptable on Asset Based Income Option. Further verification of the income will be documented through the assets reported (Purchase Loans) and/or payment history (Rate & Term Refinances) to meet ATR requirements. If reported asset is joint account with other than direct family member, asset may not be used to validate the income. For Rate & Term Refinances, the payment history must available to validate that the borrower has been able to sufficiently make the current mortgage payment on subject property. If the current mortgage is not on the borrower's credit, the borrower must provide 12 months of cancelled checks to validate that they have been making all payments on time as agreed. Paying off of a Reverse Mortgages on subject property is not eligible for Asset Based Income Option as a Rate & Term Refinance. ****Required the following P&I reserves to be deposited to the investor's bank depending on LTV.** **6 months of subject P&I reserves if LTV <60%** **12 months of subject P&I reserves if LTV>=60%** **All Asset-Based Income Option (ABIO) will still require borrower's own funds to validate the income even if no minimum contribution is required for down payment and/or closing costs.** **Required documents for ABIO.** • **2-month asset documents (80% of the stock/mutual funds & 70% of the vested retirement account value should be used.)** **For the purchase transaction – The total eligible assets will be divided by 6 months to calculate the monthly income. The qualifying income must be the lower of the two incomes of the initial 1003 or the monthly income based on the eligible assets.** **For R/T refinance transaction – If the borrower has 12 months housing payment history, the borrower can use the income stated on the initial 1003.** **All income stated on the initial 1003 must be reasonable to the borrower's profession or business profile. For the salaried employee, Salary.com comparison should be reviewed. For the self-employed borrower, the borrower's business description should be in the reasonable limit for the business income stated on the 1003.** **All assets must be owned by the borrower and must be seasoned for 60 days.**

	The same source of large deposit guideline will be applied to all assets. **Ineligible assets for ABIO.** 529 accounts Accounts pledged as collateral on another loan. Assets titled in an irrevocable trust. Below investment grade corporate and municipal bonds Business Funds (Less than 100% ownership) Cash out refinance proceeds. Custodial accounts. Deferred compensation. Crypto currency unless seasoned and liquidated to US dollars. Escrow accounts. Foreign funds. Gift Funds Health Savings Accounts Non-Financial assets (collectibles, stamps, coins, artwork, etc.) unless liquidated. Non-liquid assets (automobiles, artwork, business net worth, etc.) Non-regulated financial companies Non-vested restricted stock units Privately held stock. Stock options. SBA loans and paycheck protection funds
Rental Income	All properties that the applicant owns, and their statistics must be listed either in the Schedule of Real Estate Owned section of the 1003, or on an attached Schedule of Real Estate Owned, signed by the applicant. Rental income received from other properties the borrower owns should be verified from fully executed lease agreement. If the borrower's principal residence is a 2–4 unit property, rental income from the principal residence can be used to qualify the borrower. If the borrower is purchasing a principal residence and is retaining his or her current residence as a rental property, rental income from the departing residence can be used to qualify the borrower. When the borrower is purchasing investment property, a fully executed lease agreement may not be needed and rental income from Market Rent Value (Form 1007) from appraiser will be used. Net rental income shall be calculated by subtracting the PITIA from 75% of the gross rental income figure. If the result is a positive cash flow, it will be added to gross income. If the result is negative cash flow, it must be considered a liability. On non-subject investment properties in which the borrower holds title with a third party (non-spouse), the % of the borrower's ownership interest must be multiplied by 75% of the gross income to calculate the borrower's rental income on said property. For example, a borrower that has 50% ownership in a subject or non-subject investment property, will calculate the qualifying income as such: Gross Rental Income x .75 x .5 = Qualifying Rental Income Rental income with a term of less than 30 days is not acceptable. All departing property rental income will be based on FNMA guidelines. • Short-term rental income is not eligible to use. • ADU rental income is eligible to use if ADU is permitted.
Purchase	Purchase loans are those in which the proceeds are used solely to pay the property seller. To determine underwriting value on a purchase loan, use the lesser of the appraised/alternative market property value or sales price. Purchase loans require copies of the sales contract and/or escrow instructions and all other agreements between the buyer and seller related to the property.

	All documents should be fully executed by all parties. Proof of earnest money deposit is required. A fully executed sales contract or purchase agreement is required to be received and reviewed on all purchase transactions. • At least one borrower must have signed the sales contract and/or addendum to purchase contract as the buyer. • All Seller concessions listed on the sales contract must be addressed by the appraiser.
Ineligible Purchase Transactions	• Non-arm's length transactions Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are not permitted. • For sale by owner transactions. • At-Interest Transactions An at-interest transaction involves person who is not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Acceptable examples of at-interest transactions (Primary home transaction only) include builder/seller also acting as realtor/broker, dual real estate agent (selling/listing agent), Borrower acting as his/her own real estate agent, realtor/broker selling own property, and borrower purchasing from his/her current landlord. Unacceptable examples of at-interest transactions include realtor/broker acting as listing/selling agent as well as the mortgage loan originator, seller acting as the mortgage loan originator, borrower's family member acting as the mortgage loan originator and real estate broker at the same time. Transaction includes unacceptable at-interest characteristics are not permitted.
Property Flips	A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. If the subject property is owned by the seller for less than 90 days, transaction must be arm's length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction and the sales price of the property cannot be 30% or more above the seller's acquisition cost.
Rate-and-Term (No Cash-Out) Refinance	A rate-and-term refinance transaction represents a loan that is used to pay off an existing loan by obtaining a new first mortgage secured by the same property. This type of refinance is allowed under the following conditions: • Closing costs, including prepaid items, may be included in the new loan amount provided that they are reasonable and customary for the market. • Cash back to the borrower(s) cannot exceed 2% of the new loan amount or $2,000.00, whichever is less. Principal reduction is allowed up to $2,000 if the net proceeds exceed the limit. • Delinquent real estate taxes (past due by more than 60 days) may not be included in the loan amount. • Subject property cannot be listed for sale and listing must be withdrawn prior to the application date. **Rate-and-term refinances with 2nd trust deed mortgage pay-off.** Rate-and-term refinances whose proceeds are being used to pay off a junior lien are allowed with the following conditions:

	• The junior lien must have 12 months seasoning from the closing date of the refinanced mortgage in order to be considered a rate-and-term refinance. If the junior lien is not seasoned for at least 1 year and it is being paid off with the new mortgage loan, the new mortgage is considered a cash-out refinance and must meet the cash-out refinance guidelines. The 12 months will be calculated from the closing date of the current junior lien to the consummation date of the new rate and term refinance. • If a non-purchase money junior lien is seasoned for 12 months, it does NOT require proof of no withdrawals in the past 12 months. • The seasoning may be waived if the junior lien was originated as a purchase-money second mortgage (seller or institutional financing) with the first and second lien was recorded simultaneously.
Cash Out Refinance	A cash-out refinance is a loan whose proceeds exceed the outstanding principal balance of the existing liens plus reasonable and customary closing costs. MCFI requires 6 months title seasoning on cash out loans, and continuity of obligation must exist. This is measured from the date on which the property was purchased to the loan application date. Subject property cannot be listed for sale and listing must be withdrawn prior to the application date. Any refinance done as a cash-out transaction within six months prior to new loan application date is also considered as a cash-out.
Delayed Financing Exception	Cash-Out loans for borrowers who purchase the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) may be eligible for a delayed financing exception, provided that the transaction meets the following requirements: • The original purchase transaction was an arms-length transaction. If the seller of the property was an LLC, the principals of the LLC must be documented. • The original purchase transaction is documented by a final Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. • The preliminary title search or report must confirm that there are no existing liens on the subject property (i.e., “free & clear” property). • The source of funds used for the purchase transaction must be documented and must be borrower’s own funds. • All other cash-out refinance eligibility requirements must be met, and cash-out pricing is applied.
Continuity of Obligation	Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. Continuity of obligation requirements do not apply when there is no existing mortgage on the subject property as a result of the borrower either having purchased the subject property with cash or when any prior mortgage for which the borrower was an obligor was paid in full. If any of the following parameters can be met, loan may be eligible for refinance transaction even if the continuity of obligation does not exist: • The borrower on the new refinance transaction was added to title prior to loan application date. (6-month title seasoning for cash out transaction still required.) • The borrower acquired the property through an inheritance or was legally awarded the property (e.g., divorce, separation, or dissolution of a domestic partnership). • The borrower on the new refinance transaction has been added to title through a transfer from any legal entity (LLC, Corporation, Limited Partnership

& Etc.) and the borrower is 100% owner prior to the transfer. The transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan.

• The borrower on the new refinance transaction has been added to title through a transfer from a trust and the borrower is a beneficiary/creator of the trust.

Property Assessed Clean Energy Loans

Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy improvements and are generally rapid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. MCFI does not allow mortgage loans secured by properties with an outstanding PACE loan.

• Paying off the Pace Loan: For purchase transaction, existing PACE loan must be paid off at closing. For refinance transaction, if outstanding PACE loan balance is less than 15% of current appraised value of the property, the payoff amount will be included in the limited cash-out transaction. If outstanding PACE loan balance exceeds 15% of current appraised value of the property, transaction will be considered as cash-out.

Credit History

1. Payment History

MCFI reviews the frequency and severity of adverse credit events to determine whether a borrower's credit history presents an acceptable risk. The borrower must have at least 3 tradelines in good standing seasoned for at least 12 months. Seasoned tradelines with derogatory payments beyond 36 months may be used as a traditional credit reference. If borrower cannot demonstrate 3 tradelines in good standing on traditional credit report, borrower may provide a non-traditional credit reference from US institutions for the past 12 months. Non-traditional credit may be used when the borrower's traditional credit history indicates derogatory references that occurred and were addressed more than 36 months in the past. This includes references such as late payments, collection accounts, or judgments. Non-traditional credit cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.

Authorized user account may be counted as borrower's tradeline and the payment must be included as borrower's liability. The adverse credit events, if any, should not reflect disregard for, or mismanagement of, financial obligations.

The table below outlines the acceptable number of late payments.

Mortgage/Rent			
Max. allowed	Past 12 months	Past 24 months	Past 36 months
x 30 days	1	2	4
x 60 days	0	1	2
x 90 days	0	0	0

No limit if past 36 months

Installment/Revolving Debt			
Max. allowed	Past 12 months	Past 24 months	Past 36 months
x 30 days	3		4
x 60 days	0	1	2
x 90 days	0	1	1

No limit if past 36 months

Bankruptcy/SS&DIL/Foreclosure	3 yrs/2 yrs/5 yrs
Loan Modification	5 yrs

When a borrower has late payments, underwriting judgment is required to determine the intent of the borrower. The determination must be made whether the borrower's late payments were due to a disregard of financial obligations or whether outside factors beyond the borrower's control contributed to the late

	payment. Indictors of borrower's intent include the frequency and timing of late payments, whey they occurred, their severity, and the size of the account balance. Although a borrower's history may include an acceptable level of late payments, the reasons for failure to pay as agreed must be reasonable, corrected, and not likely to recur. These reasons should be stated in a letter explaining the time frame around the late payment. All obligations of the borrower must be current at the time of closing. **Bankruptcy** • Letter of explanation (prepared, signed and dated by the borrower); • Residential mortgage credit report verifying that satisfactory credit has been re-established, and the bankruptcy must be discharged for at least 3 years prior to application. Re-established credit is defined as a minimum of 3 accounts that have been open and active for the past 1 year. These accounts must be in good standing (no late payments) and documented by a traditional credit report. • No multiple bankruptcies allowed per borrower. **Short-sale and Deed in Lieu** A borrower who has had a short-sale or deed in lieu completed within the last 2 years is not eligible. • New application date must be at least 2 years from the close and/or transfer of title due to short-sale or deed in lieu • No multiple short-sales or deed in lieu allowed per borrower. **Foreclosure/NOD** A borrower who has had an ordinary foreclosure/NOD commenced within the last 5 years is not eligible. • No multiple foreclosures allowed per borrower. **Judgments** All judgments, liens, garnishments, etc. which have a balance greater than $1,000.00 must be paid in full at or prior to closing. All tax liens must be paid in full at or prior to closing. **Collections/Charge-Off of Non-Mortgage Accounts** For a collection account or non-mortgage charge-offs with less than $250 balance or an aggregate balance of less than $1,000.00, the collection(s) or non-mortgage charge-offs need not be paid prior to closing. All other collections or non-mortgage charge-offs must be paid at or prior to closing (including medical collections). **Loan Modification** A borrower who has applied for or received a loan modification is eligible if the loan modification has been seasoned for at least 5 years prior to loan application date. Details of the modification must be reviewed to ensure the eligibility of the transaction. Following documents must be provided: • Letter of explanation required from borrower • Document to verify the loan modification date if not presented on credit report **Covid-19 Forbearance** For the subject property, the borrower must come out from the deferred payment and must make 3 consecutive payments. For the non-subject property, the borrower must come out from the deferred payment. Also need LOE regarding the forbearance. **Disputed Accounts**

	When there is a disputed tradeline with a reported derogatory payment within the last two years, the accuracy and completeness of the information reported on the borrower's credit report for the disputed tradeline must be confirmed. If it is determined that the disputed tradeline information is accurate and complete, and the disputed tradelines are considered in the credit risk assessment and all payments must be included in the debt-to-income ratios. If documentation can be provided to substantiate the dispute, updated information can be utilized. For instance, if a collection is currently showing an outstanding balance and is in dispute, but the borrower is able to provide a letter from the creditor confirming payment has been made, the collection is not required to be paid. **2. Credit Scores** MCFI requires a minimum credit score 700 (Standard Product) or 660 (CRA Product) and will make price adjustment according to credit scores. Credit scores, often called the FICO score, are documented on traditional tri-merged credit reports. If there are only two scores, the Bank uses the lower one. If there are three, the Bank uses the middle score of the three. If only one score is available, the credit report is still acceptable as long as following conditions are met: • Credit data is available from the repository, • A credit score is obtained from that repository, and • A tri-merged report. **3. Credit Documentation** A traditional credit report must be included for each borrower whose income is being relied upon for qualification. Credit Report may not be more than 90 days old at the time of closing. If the credit report exceeds the 90-day limit, a new or updated (not revised) report is required. Note: Rapid Rescores to improve FICO scores are not acceptable. Worst-case scores and liabilities amounts will be used to qualify. If required information is not included in the traditional report, alternative credit references should be submitted along with the report. Direct verification is required for any accounts not on the credit report that is being used as a reference. If adverse items exist on the credit report, a letter of explanation is required. • Established Credit A borrower with established credit has a history that can be verified through traditional credit reports. The report used by the Bank is a tri-merged credit report from the three major credit bureaus: Experian, Equifax, and Transunion. • Non-established Credit /No Credit History Borrowers whose credit cannot be verified through traditional sources are considered to have non-established credit or no credit history. These borrowers may pose a higher risk because there is no information to substantiate their ability to manage debt. These borrowers will not be eligible. 4. **Credit Inquiries** Excessive inquiries by credit bureaus in the past 90 days before the date of application must be explained and investigated when there was no account opened as a result of the inquiry. A letter of explanation from the borrower stating the reason for each inquiry must be obtained.
Liabilities	**Alimony/Child support** Deduct from income if more than 10 months remain. Copy of Divorce decree is required. **Business loans** May be excluded from total debt if evidence showing payment by company for the past 6 months can be provided.

	Child support Deduct from income if more than 10 months remains. Copy of Divorce decree required. **Co-signer obligations** Not counted if verified that 6 months paid by other party. 6 months cancelled checks required. For a brand-new account with less than 6 months history, payment proof from the opening date is required. **Installment account** Less than 10 months balance not counted. Borrower may pay down or pay off the installment loan to exclude from the liability. Account must be paid down or paid off at or prior to closing. **Monthly housing expense** Count PITI, MI premium, flood insurance premium if applicable, leasehold payment, HOA dues, subordinate financing payments. If the borrower does not own a primary residence, but does own an investment property, a Verification of Rent (VOR) will be required to satisfy primary residence housing expense. If landlord is a private party, VOR with 12 month rent payment cancelled checks or bank statements are required to verify. If the spouse owns primary residence solely, verification of mortgage (VOM) will be required, and payment will be included in DTI as monthly housing expense. VOM on spousal solely owned primary residences are not required in non-community property states. If the current lien is from a private lender, VOM with 12 month rent payment cancelled checks or bank statements are required to verify. **Living rent free borrower** • Any reported portion of a 12-month history must show paid as agreed. • A letter from property owner is required to verify living rent-free. • Primary residence transactions only. • Borrowers who own primary residence free and clear are not considered as living rent-free. • Must be in a reasonable situation. **Previous/ proposed housing expense** Used to calculate the impact on the borrower's monthly housing payment. Significant increases must be offset by savings or an increase in income along with good credit history. **Revolving accounts** Payment shown on credit report or statement. If none, use the higher of $10 or 5% of balance for bank cards or retail stores, 2% for personal credit lines. The borrower may pay off the revolving account at or prior to closing in order to exclude from the liability. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio. **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, borrower must demonstrate funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, borrower may provide proof of payoff in lieu of verifying funds to cover the account balance. **Student loans**

	Always counted even if deferred. If monthly payment after the deferred period cannot be verified, use 1% of the outstanding balance. **Subordinate financing** For HELOCs, count monthly payment amount. If there is none, use the current balance with current rate and current payment as detailed on the HELOC agreement or note. If interest only payment will change to fully amortized payment within 3 years, fully amortized payment for amortization period must be used to qualify. For example, if a HELOC only has 2 years of interest only payments remaining and will then change to a fully amortized payment for 15 years, the 15-year amortization period will be used at current rate to qualify.
Assets	**Cash Reserves Requirement** Cash reserves are a strong indicator of a borrower's ability to manage financial resources and build a financial cushion. MCFI's cash reserves requirements are as follows: • See most recent Standard Product Matrix or CRA Product Matrix for P&I asset requirements based on loan amount, product type. • Business funds cannot be used as reserves unless transferred to a personal account with acceptable paper trail. • Refund of escrow deposit can be used for reserves if funds have been sourced for required two (2) months. • Reserves must be held in a US institution. • Cash Out Transactions: 12 months P&I regardless of LTV. Loan proceeds may not be used as cash reserves. **Acceptable Sources of Assets** Asset documents must be no more than 90 days old on the date of loan closing. When consecutive asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 90 days old on the loan closing date. **Bank Accounts** Bank/financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts. These funds may be used for down payment, closing costs, and reserves. • Individual Accounts: Funds in the borrower's individual account are acceptable. • Joint Accounts: Funds in a joint account are acceptable if borrower always has access to all funds in the account. This may be demonstrated with the 100% access letter from the joint account holder. • Trust Accounts: Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to them. The borrower must provide proper documentation to verify he/she is the beneficiary and has direct access to the funds. Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts. Bank accounts shall be examined carefully for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources may be necessary to validate the documents. The borrower must provide a written explanation and documentation of the source of funds for any large deposits. Large deposits are defined as a single deposit that exceeds 100% of the total monthly qualifying income for the loan. If the source of the large deposit is readily identifiable on the account statement, such as a direct deposit from an

	employer, the Social Security Administration, etc., additional documentation may not be required. If there is any question that the funds may have been borrowed or there are consistent deposits that are not income, additional documentation must be obtained. • Verification of Deposit is not allowed. • Account Statements for 2 month: Quarterly and annual account statements dated greater than 30 days and less than 90 days are acceptable. Account statements must clearly identify name and address of the depository or investment institution, the borrower as the account holder, account number, time period covered by the statement, all deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account and ending account balance. • Online account statements obtained by the borrower: Online account statements must include all the information listed above for standard account statements. **Sale Proceeds** The proceeds from the sale of a borrower's present home are a common and acceptable source for the down payment and closing costs on a new home. Documentation Requirement Copy of final settlement statement or Closing Disclosure for the sale showing sufficient net cash proceeds to consummate the purchase of the new home must be obtained. If the net cash proceeds are not sufficient to meet the cash requirements for the purchase of the new home, the borrower must have other liquid assets to make up the difference. **Business Funds** If business funds are used for down payment, and closing costs, the borrower must be the sole proprietor or 100% owner of the business. If the borrower is not 100% owner of the business, business funds may not be used for down payment or closing costs. Funds in the business account may be used up to 100% of the current balance. The impact of the withdrawal must be considered in the analysis and the analysis must indicate that withdrawal of funds will not have a detrimental effect on the borrower's business. Large deposits that are uncommon compared to normal business transaction trends as evidenced through income documentation and business fund statements must be addressed and verified. Business funds may not be used for reserves unless it has already been deposited into borrower's personal account. If business funds are related to a business that the borrower did not disclose on the loan application, CPA letter must confirm that borrower has 100% ownership in the business and that the use of funds will have no negative impact on the business. **Gifts** The borrower may use funds received as a gift from an acceptable donor to use towards down payment and closing costs. An acceptable donor is a relative, defined as a spouse, child, parent, sibling, grandparent, aunt, uncle, cousin, domestic partner, fiancée, or fiancé. The donor may not be, or have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. If donor provides gift funds from business account, 100% ownership verification required (Ex. CPA; K-1). **No gift of equity is allowed.** Transfer of Gift Funds Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required.

	Acceptable documentation to verify sufficient funds to cover the gift funds are either in the donor's account or have been transferred to the borrower's account, include the following: • A copy of the cashier's check with remitter name as donor • A copy of wire receipt showing donor as originator • A copy of the donor's personal check requires cancelled check, and the borrower's deposit slip. If gift funds were sent directly to escrow: • Copy of the donor's check to the closing agent and escrow receipt. **Documentation Requirement** A gift letter providing the amount of the gift, the donor's name, address, and telephone number, donor's relationship to the borrower, donor statement that repayment is not required, subject property address, and donor's signature is acceptable documentation**.** **Foreign Assets** Foreign assets being used for down payment and closing costs must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third-party and placed in a United States financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified. Funds that a non-U.S. citizen borrower recently deposited in a U.S. depository institution are an acceptable source of funds provided all the following requirements are met: • There is documented evidence of funds transfer from the country from which the borrower immigrated. • It can be established that the funds belonged to the borrower before the date of the transfer; and • The sources of all funds used for closing can be verified just as they would for a borrower who is a U.S. citizen. The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC). **Retirement Accounts** Vested funds from individual retirement accounts (IRA, SEP-IRS, and KEOGH) and tax-favored retirement savings account (e.g., 401(k), 403(b)) may be used as the source of funds for down payment, closing costs and cash reserves. The most recent retirement account statement must be provided and must identify the borrower's vested amount and the terms. Terms of withdrawal may be required. When funds from retirement accounts are used for reserves, only 70% of vested funds will be used, and MCFI does not require the funds to be withdrawn from the account(s). The terms of withdrawal agreement will not be required if it is for reserve use only. **Stocks/Bonds** Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified. The value of stocks, bonds or mutual funds must be documented by the current statement. When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required. When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the

	sale or liquidation must be documented. Stock options and non-vested restricted stocks are not an eligible asset source for reserves. **Cash Value of Life Insurance** Net proceeds from a cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs and reserves. The most recent statements must be provided. If the funds are needed for the down payment or closing cost, proof of liquidation and receipt of the funds by the borrower must be documented. If the cash-value of the life insurance is being used for reserves, 70% of the cash-value will be used and must be documented but does not need to be liquidated and received by the borrower. **Unacceptable Sources of Assets** Sources of funds considered ineligible include, but is not limited to the following: • Cash advance on a revolving charge account. • Bridge Loan. • Cash for which the source cannot be verified. • Funds in a custodial or "in trust for" account. • Gift that must be repaid in full or in part. • Sweat Equity. • Personal unsecured line of credit or loan. • Salary advance. • Crypto currency (If the borrower liquidated and deposited into the bank account, this asset can be used with the sources of the paper trails.)
Property Eligibility and Project Eligibility	**Eligible Properties** Properties eligible for loans are single family detached and attached residences (including condominiums, planned unit developments (PUDs). In general, MCFI will consider a loan for any 1-4 unit residential property. A loan request will not be rejected solely on the basis of age of the property, square footage, number of bedrooms, the location of the property, or the ethnic composition of the neighborhood. MCFI does, however, require minimum bathroom facilities (to consist of sink, toilet, and bathtub/shower) and permanent heating. **1. Single Family Residence (SFR)** An attached or detached single-family dwelling, including town homes and row homes. **2. Two-to-Four Unit Property** A two-to-four unit property is a residential structure with more than one unit but not more than four units. **3. Planned Unit Development (PUD)** A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (e.g., parking space). **4. Condominium** A condominium is a unit in a project in which each unit owner has title to their individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners. For additional PUD/Condo requirements, see Project Eligibility section. **Ineligible Properties** • Vacant land or land development properties

- Leasehold
- Properties that are not readily accessible by roads that meet local standards.
- Agricultural properties, such as farms or ranches
- Boarding Houses
- Bed and breakfast properties.
- Properties that are not suitable for year-round occupancy regardless of location
- Manufacture homes.
- Mobile homes
- Properties in non-residential zoning
- Mixed use properties
- Title to the property not held as fee simple.
- Co-Operatives (Co-Ops)

Condominium/PUD Project Eligibility & Review
All condominium & attached PUD projects require a Homeowners Association (HOA) Questionnaire. For LTV less than or equal to 50% on established condominiums, a limited HOA Questionnaire will be acceptable. For all other condominium loans including new construction, a full HOA Questionnaire must be completed. The completed questionnaire must confirm that the condo project is eligible.

1. Maximum Loan Concentration
The maximum number of loans that the Bank may extend in a condominium or attached PUD project may not exceed 20% of the total units in the project.

2. New Condo Project
A new condo project is 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 the unit purchasers;
- the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;
- the project is newly converted; or
- the project is subject to additional phasing or annexation

At least 70% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale. At least 50% of the total units in the project must have been conveyed or be under contract for sale to principal residence or second home purchasers when subject is an investment property.

3. Ineligible Attached/Detached Condo & Attached PUD Projects
The following types of condominium projects are ineligible for financing by the Bank:

- Projects that contain commercial space exceeding 50%.
- Timeshare or segmented ownership projects.
- Manufactured homes.
- Condo-hotel.
- Houseboat projects.
- Projects that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
- Projects involved in any type of litigation.
- Projects with owner-occupied occupancy ratio less than 50% when subject is investment property.
- Projects with more than 15% of the condo association dues delinquent.
- Projects that contain 8+ units with single entity owning more than 30% of the entire project.

	• Projects that contain equal or less than 8 units with single entity owning more than 50% of the entire project. • Projects subject to resale restrictions. (Age restriction is exempted for senior condo) • Lender is liable for more than 6 months delinquent common charges. • Lender is liable for more than 6 months for any delinquent common charges when a unit is taken over in Deed-In-Lieu or foreclosure. • HOA owns or operates any non-incidental business operation. • High Rise condominium project in Nevada Due to the unknown risks surrounding super priority lien status in Nevada State Law NRS 116.3116, high rise condominiums in Nevada are not eligible at this time. Detached/attached condominiums in Nevada are acceptable.
Insurance	**Hazard Insurance** **1. Evidence of Insurance** At closing, the borrower must provide evidence that the property is covered by hazard insurance in one of the following forms: • Hazard Insurance Policy; • A Certificate of Insurance, Evidence of Insurance Form, Declaration Page, or Insurance Binder that contains the following information: ○ Name of insured (for condominiums and PUD's the homeowners association is the named insured) ○ Name of mortgagee ○ Property address, including zip code. ○ Mailing address, if different from property address (second homes and non-owner occupied investment property) ○ Type, amount and effective dates of coverage ○ Deductible amount and coverage to which each such deductible applies ○ Any endorsement or optional coverage obtained and made part of the original policy **2. Mortgagee Clause** The mortgagee clause/loss payee on all first mortgage policies, binders, and certificate of insurance must show MCFI as the mortgagee using the following language: Mega Capital Funding, Inc. Its Successors And/Or Assigns 26637 Agoura Road, Suite 100, Calabasas, CA 91302 Loan# The mortgagee clause must provide that the insurer will notify the named mortgagee at least 10 days before cancellation of the policy. **3. Policy Term** The policy must be written for at least a one-year term and be continuous until cancelled. For purchase transactions, 12 months coverage is required. For refinance transactions, 3 months coverage is required. **4. Policy Effective Date** The policy effective date must be on or before the date the Borrower's loan is funded. **1-4 Unit Properties:** • **Coverage Amount** The hazard insurance coverage must equal at least the unpaid principal balance of the mortgage or100% of insurable value of the improvements required to compensate for damage or loss on a replacement cost basis. However, if the principal balance of the mortgage is less than the minimum coverage required [80% of the insurable value of the improvements required to compensate for damage or loss on a replacement cost basis], the minimum of

	80% replacement cost will be required. If it does not, then coverage that does provide the minimum required amount must be obtained. Note: For properties located in California, It is prohibited from requiring hazard insurance in an amount exceeding the replacement value of the improvements on the property. MCFI must provide written notice of the restrictions to the borrower prior to execution of the Note and security instrument. (CA Civil Code 2955.5) • **Deductible** The maximum deductible may be up to 5% of the amount of the policy unless a higher maximum amount is required by the state law. If individual deductibles apply to losses from named perils, such as fire, water (not caused by flooding, or wind), then each deductible may not exceed 5% of the dwelling coverage. The deductible must apply to either fire or extended coverage, or both. **Condominiums:** • **Coverage** The condominium association must maintain a master of blanket type of insurance policy, with premiums that are paid as a common expense. The policy must cover all general and limited common elements normally included, such as fixtures, building service equipment, and common personal property and supplies belonging to the homeowners¡¦ association. Insurance must cover 100% of the current replacement cost of the project improvements including the individual unit in a condominium project and $1 million liability per occurrence. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage. • **Liability Insurance for Condominiums** The homeowner's association must maintain a commercial general liability insurance policy for the entire project. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements. Liability coverage must be at least $1 million per occurrence for personal injury and/or property damage and the coverage must provide for claim settlements on an occurrence basis. • **Fidelity of Employee Dishonesty Insurance for Condominiums** For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least a sum of three months of assessments on all units in the project is required. • **HO-6** ○ If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer. ○ Deductible The maximum deductible may be up to 5% of the amount of the policy, unless a higher maximum amount is required by the state law. If individual deductibles apply to losses from named perils, such as fire, water (not caused by flooding, or wind), then each deductible may not exceed 5% of the dwelling coverage. The deductible must apply to either fire or extended coverage, or both. **6. Insurance Binder** MCFI will accept an insurance binder at loan closing, provided the binder must be accompanied by a paid receipt and has to be replaced by an original insurance policy within 30 days. Paid binder date cannot exceed 90 days. **Flood Insurance** **1. Standard Flood Hazard Determination (SFHD)**

	Each loan must include the Federal Emergency Management Agency (FEMA) Standard Flood Hazard Determination (FEMA Form 81-93) used in determining whether any of the improvements for a subject property are located within an identified “Special Flood Hazard Area” (SFHA). Flood insurance is required if any building, dwelling, structure, or improvement is located within an SFHA that has mandated flood insurance purchase requirements under the National Flood Insurance Program (NFIP). “Life of loan” Flood Hazard Certificate is required on all loans from a nationally recognized company. SFHAs are designated by the following zonings: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30. If there is a detached structure such as detached garage or guest house, SFHD must be obtained for the separate structure as well. Refer to MCFI's Flood Insurance Policy and procedures for other requirements. **2. Notice of Special Flood Hazards (NSFH)** If any part of the principal structure is located within an SFHA, the Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance must be provided to borrower no later than 10 days prior to consummation. Notice must be provided to at least one borrower if there are multiple borrowers. Borrower signature and dates are required on the NSFH. NSFH must be provided for all loans, even if flood insurance already exists (e.g. for a refinance). **3. Location of Property within the SFHA** (a) Multiple Buildings If multiple buildings securing the loan are located in an SFHA in a participating community, the client must determine the amount of insurance required on each building and add these amounts together to determine the minimum amount of flood coverage. Each building securing a loan must be covered by a separate flood policy. The amount of total required flood insurance can be allocated among the secured buildings in varying amounts, but all buildings in an SFHA must have some coverage. (b) Principal Structure Located Within an SFHA Flood insurance is required if any part of the principal structure is located within an SFHA. Flood insurance on detached buildings, such as sheds or greenhouses located within an SFHA, is required if they serve as part of the security for the Loan. (c) Principal Structure Not Located within an SFHA Even if the principal structure is not located in an SFHA, if there are detached buildings affixed to the site that are located in an SFHA and serve as part of the security for the Loan, a flood insurance policy is required for each detached building. (d) Detached Garages If the residential building is a one-to-four family dwelling that is covered by a dwelling form NFIP policy, that policy will cover a detached garage at the same location as the dwelling, up to 10% of the limit of liability on the dwelling, so long as the detached garage is not used or held for use as a residence, a business or for farming purposes. **4. Policy Term** The policy must be written for at least a one-year term. **5. Date of Determination** The Date of Determination field on the SFHD must be a date that is no more than 120 days before the Note Date of the Mortgage or; if applicable, the Note Date of the refinance Mortgage. **6. Policy Effective Date** The policy effective date must be on or before the consummation date.

	7. Evidence of Insurance
	At closing, the borrower must provide evidence that the property is covered by flood insurance in one of the following forms:
	• Flood insurance policy issued under NFIP,
	• Policy Declarations Page, or
	• Copy of the Flood Insurance Application with a paid receipt for the first year's premium.
	8. Coverage
	(a) 1-4 Unit Properties, individual PUD units, Detached Condominium units, and Townhouses
	The flood insurance coverage must equal the lesser of the following:
	• The outstanding principal balance of the loan; or
	• The maximum amount of insurance available under the NFIP, which is the lesser of:
	  o The maximum limit available for the type of structure; or
	  o The "insurable value" of the structure. (The NFIP does not insure land; therefore land values are not included in the calculation of the insurable value).
	The maximum allowable deductible is the maximum deductible available from the NFIP.
	(b) PUDs
	Coverage Amount for Individual PUD Unit
	The coverage amount is the same as for other 1-4 unit properties. Coverage Amount for PUD Project
	The policy must cover any common elements buildings and any other common property located in an SFHA.
	The flood insurance coverage must equal the lesser of the following:
	• 100% of the insurable value of the facilities; or
	• The maximum coverage available under the appropriate NFIP Program.
	The max deductible allowable deductible is the maximum deductible available from the NFIP.
	(c) Condominiums
	The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:
	• Building Coverage must equal the lesser of:
	  o 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
	  o The total number of units in the condominium building times $250,000
	• Contents Coverage must equal the lesser of:
	  o 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
	  o The maximum amount of contents coverage sold by the NFIP for a condominium building***contents coverage is not required.
	
	9. Escrow Policy
	For a property in flood zone, flood insurance must be escrowed.
	
	10. Waiver
	Flood insurance requirement will be waived if the borrower obtains a Letter of Map Amendment (LOMA from FEMA stating that its maps have been amended so that the buildings securing the loan are no longer in an SFHA. Until LOMA is obtained, insurance is required.

Title Insurance	**1. Title Insurance Vesting Requirements** • Purchasing transactions must have evidence of chain of title from seller to buyer (borrower); • Refinance transactions must have evidence that title is vested in subject borrower(s); • All vested parties have executed the security instrument and complied with all title requirements. • If title has been conveyed within the most recent 12 months, additional documentation may be required to ensure acceptability of transaction. • The title must be "Fee simple". • Legal description must agree with all legal documents. • Closing Insuring Protection Letter is required on each loan transaction. Must be made available to MCFI either prior to closing or during a post funding QC audit of the loan. **2. Title Insurance Exceptions** • Property Taxes, assessments and bonds must be paid current; • Specific title endorsements must be obtained if necessary and if required by state law (e.g., not definable easements, mineral rights, etc.); • All existing liens and judgments must have been paid or released; • Insurance endorsements have been obtained to cover right of surface entry if rights are not specifically waived in the legal description; • Title exceptions are limited to those generally acceptable in the secondary market, as determined by MCFI in its sole discretion; • Additional title endorsements may be required; • A duly authorized agent of the issuing title insurance company must countersign title commitment; • Amount of title insurance must be equivalent to the face amount of the Note; • Title Company and policy of title insurance must conform to FNMA requirements.