



## SIMPLE ELITE BANK STATEMENT, 1099 & FULL DOC

### FULL DOC, 12 MONTHS BANK STATEMENTS & 1099

#### PRIMARY RESIDENCE & 2<sup>ND</sup> HOME

TRANSACTION TYPE	MAX LTV/CLTV	MAX LOAN AMOUNT	MIN FICO	MAX. DTI <sup>1</sup>
PURCHASE RATE AND TERM	85% <sup>2, 4</sup>	\$2,000,000	720	50%
	80% <sup>4</sup>	\$2,500,000 <sup>3</sup>	680	50%
	75%	\$3,000,000 <sup>3</sup>	680	50%
	70%	\$2,000,000	660	50%
CASH-OUT	80% <sup>4</sup>	\$2,500,000 <sup>3</sup>	700	50%
	75%	\$3,000,000 <sup>3</sup>	680	50%
	70%	\$2,000,000	660	50%

1. FTHB DTI – 45%
2. Primary residence only, 0x30x12, No credit event, No I/O, No 2-4 unit
3. Interest Only – Max LTV/80%, Loan amount >\$2M-\$2.5M/Max LTV is 75%  
Loan amount >\$2.5M/Max LTV is 70%
4. Florida condo project Max LTV/CLTV=75% & FNMA approved projects within the last 18 months only.

### FULL DOC, 12 MONTHS BANK STATEMENTS & 1099

#### INVESTMENT PROPERTY

TRANSACTION TYPE	MAX LTV/CLTV	MAX LOAN AMOUNT	MIN FICO	MAX. DTI <sup>1</sup>
PURCHASE RATE AND TERM	80% <sup>3</sup>	\$2,500,000 <sup>2</sup>	700	50%
	75%	\$3,000,000 <sup>2</sup>	680	50%
	70%	\$2,000,000	660	50%
CASH-OUT	80% <sup>3</sup>	\$2,500,000 <sup>2</sup>	700	50%
	75%	\$3,000,000 <sup>2</sup>	680	50%
	70%	\$2,000,000	660	50%

1. FTHB DTI – 45%
2. Interest Only – Max LTV/80%, Loan amount >\$2M-\$2.5M/Max LTV is 75%  
Loan amount >\$2.5M/Max LTV is 70%
3. Florida condo project Max LTV/CLTV=75% & FNMA approved projects within the last 18 months only.



# MEGA CAPITAL FUNDING, INC.

PROGRAM CODES					
Program Codes	Doc Type	Code	Term	Amort type	Prepay Term
	Full Doc, 12mo Bank Statements & 1099	SEZ30	30yr Fixed	Full	-
		SEZ5/6	5/6 30yr ARM	Full	-
		SEZ7/6	7/6 30yr ARM	Full	-
		SEZ40io	40yr Fixed	Interest Only	-
		SEZ5/6io	5/6 30yr ARM	Interest Only	-
		SEZ7/6io	7/6 30yr ARM	Interest Only	-
		SEZ1P30	30yr Fixed	Full	1yr
		SEZ2P30	30yr Fixed	Full	2yr
		SEZ3P30	30yr Fixed	Full	3yr
		SEZ4P30	30yr Fixed	Full	4yr
		SEZ5P30	30yr Fixed	Full	5yr
		SEZ1P40io	40yr Fixed	Interest Only	1yr
		SEZ2P40io	40yr Fixed	Interest Only	2yr
		SEZ3P40io	40yr Fixed	Interest Only	3yr
		SEZ4P40io	40yr Fixed	Interest Only	4yr
		SEZ5P40io	40yr Fixed	Interest Only	5yr
		SEZ1P7/6	7/6 30yr ARM	Full	1yr
		SEZ2P7/6	7/6 30yr ARM	Full	2yr
		SEZ3P7/6	7/6 30yr ARM	Full	3yr
		SEZ4P7/6	7/6 30yr ARM	Full	4yr
		SEZ5P7/6	7/6 30yr ARM	Full	5yr
		SEZ1P5/6	5/6 30yr ARM	Full	1yr
		SEZ2P5/6	5/6 30yr ARM	Full	2yr
		SEZ3P5/6	5/6 30yr ARM	Full	3yr
		SEZ4P5/6	5/6 30yr ARM	Full	4yr
		SEZ5P5/6	5/6 30yr ARM	Full	5yr
		SEZ1P7/6io	7/6 30yr ARM	Interest Only	1yr
		SEZ2P7/6io	7/6 30yr ARM	Interest Only	2yr
		SEZ3P7/6io	7/6 30yr ARM	Interest Only	3yr
		SEZ4P7/6io	7/6 30yr ARM	Interest Only	4yr
		SEZ5P7/6io	7/6 30yr ARM	Interest Only	5yr
		SEZ1P5/6io	5/6 30yr ARM	Interest Only	1yr
		SEZ2P5/6io	5/6 30yr ARM	Interest Only	2yr
		SEZ3P5/6io	5/6 30yr ARM	Interest Only	3yr
		SEZ4P5/6io	5/6 30yr ARM	Interest Only	4yr
		SEZ5P5/6io	5/6 30yr ARM	Interest Only	5yr



## General Requirements

LOS Doc Code Mapping	<div> <div>Full Document</div> <div> <div>Full Document</div> <div>12 Mo. Personal Bank Statements</div> <div>24 Mo. Personal Bank Statements</div> <div>12 Mo. Business Bank Statements</div> <div>24 Mo. Business Bank Statements</div> <div>Other Bank Statements</div> <div>1 Yr. Tax Returns</div> <div>VOE</div> <div>Asset Utilization</div> <div>Debt Service Coverage (DSCR)</div> <div>No Ratio</div> <div>Leave Blank</div> </div> </div>	
	Doc Type	LOS Doc Type
	12 Mo Personal Bank Statements	12 Mo. Personal Bank Statements
	12 Mo Business Bank Statements	12 Mo Business Bank Statements
	1099	24 Mo. Business Bank Statements
	Full Doc	Full Document
Loan Amounts	Min	Max
	\$150,000	\$3,000,000
Loan Purpose	Purchase, Rate/Term, and Cash Out	
Occupancy	Primary Residence, 2 <sup>nd</sup> Home & Investment property	
Property Type	<ul style="list-style-type: none"> <li>Single Family, SFR-1ADU, PUD, Warrantable Condo,</li> <li>2-4 Unit (Max. LTV/CLTV 80%).</li> </ul>	
Prepayment Penalties	<p>1-to-5 year prepayment types as permitted by applicable laws and regulations on closed-end 1-to-4 unit business purpose investment properties. Prepayment penalty must be contracted for in an appropriate Note and Security Instrument or Rider.</p> <ul style="list-style-type: none"> <li> <ul style="list-style-type: none"> <li>• <b>5% Flat Prepay Structure</b>- Flat prepayment penalty charge over the life of the prepay penalty term (i.e. 5/5/5/5/5) charged to curtailment or the entire outstanding loan amount during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.</li> </ul> </li> <li>Please refer to our Prepayment Penalty Guide for state specific restrictions.</li> </ul>	
HPML	<ul style="list-style-type: none"> <li>Escrows for taxes and insurance will be required.</li> <li>Flood Insurance must be escrowed.</li> <li>Two appraisals are required to be delivered for flip transactions as defined by the CFPB.</li> </ul>	
Escrows Required	Property tax & hazard insurance escrows required if LTV >80%	
State & Federal High-cost Loans	Not allowed.	
State Restriction	All MCFI approved States except Maryland. Maryland loans are temporarily suspended.	
DTI	Max. DTI allowed: 50%, 45% (FTHB)	



# MEGA CAPITAL FUNDING, INC.

<b>Housing Payment</b>	<b>1x30 within 12 months (If LTV &gt;80%, requires 0x30x12)</b>
<b>Qualifying rates</b>	<ul style="list-style-type: none"> <li>• <b>ARM Qualifying Rate</b> Greater of Note Rate or the Fully Indexed Rate. (rounded) The fully indexed rate is calculated by adding the margin to the index.</li> <li>• <b>Interest Only</b> Qualifying payment for I/O must include principal component. Calculate payment based on: <ul style="list-style-type: none"> <li>○ The greater of the note rate or the fully indexed rate using the fully amortized payment over the fully amortized term of the loan.</li> </ul> </li> </ul>
<b>Age of Documents</b>	<p>All credit documents including credit report, income docs, and asset statements must be dated no more than 90 days prior to the note date.</p> <ul style="list-style-type: none"> <li>• Appraisals are good for 120 days from effective date to note date. Any appraisal seasoned greater than 120 days will require a recertification of value.</li> <li>• Updated documentation may be required at underwriter discretion.</li> </ul>
<b>Cash-Out</b>	<p>Max cash-in hand:</p> <ul style="list-style-type: none"> <li>• LTV &gt; 65% - \$1,000,000</li> <li>• LTV &lt;=65% - Unlimited</li> </ul>
<b>Appraisals</b>	<p>FNMA Form 1004, 1025, 1073 with interior/exterior inspection Loan amount &lt;= \$2M-One full appraisal and CDA valuation Loan amount &gt;\$2M-Two appraisals Transferred appraisal is allowed.</p>
<b>Declining Markets</b>	<p>The appraiser determines if a property is located in a declining market. Within the Neighborhood section of the appraisal, the Housing Trends subsection provides information on Property Values, Demand/Supply and Marketing Time. When the appraiser marks the Declining box for Property Values, the property is considered to be located in a declining market. For any property located in a declining market where the LTV is &gt; 65%, a 5% LTV reduction is required.</p>
<b>Borrower ATR Certification</b>	<p>Loans subject to Reg Z. Ability to Repay must include a borrower(s) certification attesting to the following:</p> <ul style="list-style-type: none"> <li>• Borrower(s) have fully disclosed their financial obligations, Borrower(s) have reviewed and understand the loan terms; and Borrower(s) have the ability to repay the loan.</li> </ul>

## Underwriting Requirements

<b>Eligible Borrowers</b>	<p>All borrowers on loans purchased by MCFI will be individual, natural persons.</p> <ul style="list-style-type: none"> <li>• U.S. Citizens: as defined by USCIS.</li> <li>• Permanent Resident Aliens: A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. Documentation requirements: Valid and unexpired Permanent Resident Card/"Green Card" (Form I-551) without conditions. For conditional permanent residents, proof of filed Form I-751 required. If any green card expires within the 6 months before closing, proof of a filed Form I-90 is required.</li> <li>• Non-Permanent Resident Aliens: An individual who is not a U.S. Citizen but lives in the U.S. under the terms of an acceptable visa and/or EAD Card. Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens must be employed in the U.S. for the last 24 months.</li> </ul> <p><b>Documentation requirements:</b></p> <ul style="list-style-type: none"> <li>○ Visa:</li> </ul>
---------------------------	--



# MEGA CAPITAL FUNDING, INC.

- If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
- If Visa has expired at closing (date the Note is signed), a filed USCIS Form I-797 is required.
- For residents of Canada or Mexico, H1-B status stamped on an unexpired passport is acceptable.
- EAD Card:
  - If expiration is within six months of the application, the borrower must show evidence that they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.
  - The EAD Card must be unexpired at closing (date the Note is signed).

Non-permanent resident borrowers must document legal residency status by meeting the documentation requirements below. Borrowers who cannot meet the requirements below are not eligible.

VISA ELIGIBILITY MATRIX				
Visa Category	Visa Type	Brief Description	Documentation Required	EAD Code
Trade Treaty Work Visa	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02
	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
Temporary Employment Visa	H-1B	Specialty Occupation	Visa	
	H-1B1	Specialty Occupation		
	H-1B2	Specialty Occupation - U.S. Department of Defense		
	H-1B3	Fashion model of distinguished merit and ability		
	H-1C	Registered nurse - U.S. Department of Labor		
	H-4	Spouse or child of H-1B	Visa and EAD	C26
Media Work Visa	I	Foreign media outlet (press, radio, film, or other)	Visa	
Nonimmigrant Visa for Fiancé(e)	K-1	Fiancé(e) - purpose of marriage	Visa and EAD	A06
Nonimmigrant Visa for Spouse	K-3	Spouse of a U.S. citizen	Visa and EAD	A09
Temporary Employment Visa	L-1A	Intracompany transfer - managerial or executive	Visa	
	L-1B	Intracompany transfer - specialized knowledge		
	L-2	Spouse or child of L-1A or L-1B	Visa and EAD	A18
Temporary Employment Visa	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	Visa	
	O-2	Assistant to O-1		
	P-1A	Internationally recognized athlete		
NAFTA Professional Workers Visa	TN	Professional under NAFTA	Visa	
Spouse / Child of Permanent Resident Alien	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I-130) which was filed prior to December 21, 2000, and has been pending for at least three years.	Visa and EAD	A15
	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed prior to December 21, 2000, and has been pending for at least three years.		
	V-3	The derivative child of a V-1 or V-2.		



# MEGA CAPITAL FUNDING, INC.

## EAD ELIGIBILITY MATRIX

Certain borrowers may hold an EAD which does not require a corresponding Visa type. Borrower's holding the EADs noted below are eligible without a Visa.

EAD Code	EAD Code Definition
C09	Adjustment of status applicant
C10	<ul style="list-style-type: none"><li>Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants</li><li>Applicant for suspension of deportation</li><li>Applicant for cancellation of removal</li></ul>
C24	LIFE legalization applicant
C31	<ul style="list-style-type: none"><li>Principal beneficiary of an approved VAWA self-petition</li><li>Qualified child of a beneficiary of an approved VAWA self-petition</li></ul>
C33	Deferred Action for Childhood Arrivals

### Eligible Vesting

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Vesting in an Entity –Investment Properties Only- requirements below:
  - Entity must be domiciled in a U.S. state.
  - Business structure is limited to a maximum of four (4) owners/members.
  - Personal Guarantees must be provided by all members of the Entity who qualify for the loan. However, if a borrower signs as an individual and not as a member, a personal guarantee is not required.
  - Each Entity member on the loan must sign the security instruments.
  - Each Entity member providing a personal guarantee must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member providing a personal Guarantee and their credit score, and creditworthiness will also be used to determine qualification and pricing.

**NOTE:** Vesting in a life estate is not allowed.

**NOTE:** Power of Attorney's (POA's) are eligible except for cash out loan programs, or when closing/vesting in the name of an Entity.

For each business type, the following documentation must be provided:

- Limited Liability Company (LLC):
  - Entity Articles of Organization, Partnership, and Operating Agreements as required.
  - Tax Identification Number (Employer Identification Number – EIN). In any case where a sole proprietor is using SSN in lieu of EIN, provide UW cert or supporting documentation to confirm.
  - Certificate of Good Standing
  - Certificate of Authorization for the person executing all documents on behalf of the Entity
  - LLC Borrowing Certificate required when all members are not on the loan.
- Corporation:
  - Filed Certificate/Articles of Incorporation (including all amendments)
  - By-Laws (including all amendments)
  - Certificate of Good Standing (issued by the Secretary of State where the business is incorporated)
  - Tax Identification Number (EIN). In any case where a sole proprietor is using SSN in lieu of EIN, provide UW cert or supporting documentation to confirm.





# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>○ Borrowing Resolution/Corporate Resolution granting authority of signor to enter into a loan obligation.</li><li>○ Receipt of current year franchise tax payment or CLEAR search (only required where applicable per state).</li><li>● Partnership<ul style="list-style-type: none"><li>○ Filed Partnership Certificate (if a general partnership, filing with the Secretary of State may not be required)</li><li>○ Partnership Agreement (and all amendments)</li><li>○ Certificate of Good Standing (issued by the Secretary of State where the Partnership is registered)</li><li>○ Tax Identification Number (EIN). In any case where a sole proprietor is using SSN in lieu of EIN, provide UW cert or supporting documentation to confirm.</li><li>○ Limited partner consents (where required by partnership agreement).</li></ul></li></ul> <p><b>NOTE:</b> Official documentation issued by a CPA, a Third-Party Tax Preparer (excluding PTIN tax preparers), the state or IRS should be used to satisfy documentation requirements. Fillable PDF's (i.e W9's) or emails from borrowers are not sufficient.</p> <p>All parties who take title to the subject property must sign the Security Instrument. <b>Layered entities are not permitted.</b></p>
<b>Ineligible Borrowers</b>	<ul style="list-style-type: none"><li>● Foreign Nationals, and all Foreign Nationals as defined by the INS.</li><li>● All Persons with Diplomatic Immunity, as defined by the INS, are not eligible borrowers.</li><li>● Persons from OFAC sanctioned countries: <a href="https://sanctionssearch.ofac.treas.gov/">https://sanctionssearch.ofac.treas.gov/</a></li><li>● Seller Employee Loans</li><li>● Trusts of any kind cannot be the borrower but may hold title.</li><li>● ITIN Borrowers residing in the U.S.</li><li>● Corporations</li><li>● LLCs</li><li>● Partnerships</li><li>● 501(c)(3) Organizations</li><li>● Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts.</li><li>● Trusts or business entities where a Power of Attorney is used.</li><li>● Businesses or Persons whose income derives from cannabis industry. Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership. Income from borrowers who are paid W-2 is allowed.</li></ul>
<b>First Time Homebuyer</b>	<p>An individual who:</p> <ul style="list-style-type: none"><li>● is purchasing the security property.</li><li>● will reside (owner-occupied) in the security property as a principal residence; and</li><li>● had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property</li></ul> <p><b>MAX DTI is 45%</b></p>
<b>First Time Investors</b>	<p>First Time Investors are borrowers who do not meet the definition of an experienced investor. An experienced investor is defined as a borrower with proof of ownership and/or management of residential and/or commercial rental real estate for at least one year in the last 3 years. A borrower working in the property management industry constitutes experience and is acceptable. First Time Investors are permitted as follows:</p> <ul style="list-style-type: none"><li>● Verified 12-month housing payment history.</li><li>● FTHB is allowed if the above requirement is met.</li><li>● 12 Months reserves are required.</li></ul>



# MEGA CAPITAL FUNDING, INC.

<b>Non-Occupant Co-Borrowers</b>	Not Allowed.
<b>Inter-Vivos Revocable Trusts</b>	<ul style="list-style-type: none"><li>Permitted in accordance with Fannie Mae</li></ul>
<b>Maximum Financed Properties</b>	<ul style="list-style-type: none"><li>Maximum 20 financed properties (including subject property) allowed.</li><li>MCFI exposure may not exceed \$7.5M aggregate or 10 loans for each borrower whichever lower.</li></ul>

Occupancy Eligibility	
<b>Primary Residence</b>	A Primary Residence is a property that the borrower will occupy or currently occupies as their primary residence. FTHBs are allowed. (See FNMA Guides for Primary Residence) 2-4 Unit (Max. LTV/CLTV 80%)
<b>Second Home</b>	A Second Home is a property that is located a reasonable distance from the borrower's primary residence and is occupied by the borrower for some portion of the year. The property must be suitable for year-round occupancy and cannot be used as a rental property. FTHBs are allowed. Second homes are limited to the following: <ul style="list-style-type: none"><li>One Dwelling Unit</li><li>Condominium</li><li>PUD</li><li>Townhouse</li></ul>
<b>Investment Property</b>	An Investment Property is defined as a 1 to 4-unit residential property that the borrower (nor any relative of the borrower) does not occupy. Requirements: <ul style="list-style-type: none"><li>First Time Investors are allowed with verified 12-month housing payment history.</li><li>A signed Business Purpose &amp; Occupancy Affidavit is required on all investment property transactions that are closing as Business Purpose. The seller must provide a personal use occupancy certification if loan is not closing as a business purpose transaction.</li><li>All investment properties that are vested in the name of an entity (e.g. LLC, Partnership, S-Corp) require a signed Business Purpose and Occupancy Affidavit</li></ul>

Eligibility	
<b>Purchase</b>	Purchase money mortgages are mortgage transactions in which the loan proceeds are used to purchase the subject property. This is evidenced by a sales or purchase agreement that has been executed by the applicant (buyer who is a party to the transaction) and the seller. Additional requirements: <ul style="list-style-type: none"><li>Non-Arm's Length Transaction. A non-Arm's Length transaction is a transaction between family members, co-workers, friends, or anyone associated with the transaction such as the listing agent, mortgage lender or broker. The following are required if the purchase of the subject property is a non-arm's length transaction:<ul style="list-style-type: none"><li>Primary Residence: The property must be the borrower's primary residence.</li><li>Gift of Equity is eligible: a Gift of Equity occurs when equity in a property is gifted from the owner to the borrower when the borrower and owner are related.</li><li>Examples of Non-Arm's Length Transactions:</li></ul></li></ul>





# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>▪ Relatives: defined by blood, marriage, adoption, or legal guardianship. The transactions between parents, siblings, grandparents, aunt, uncle, cousin, stepchild or spouse is considered Non-Arm's Length.</li><li>▪ Employee/Employer</li><li>▪ Landlord/Tenant</li><li>▪ Home Builders</li><li>▪ Real Estate Brokers/Agents</li><li>▪ Third-Party Service Providers</li><li>▪ Seller Employees</li><li>▪ Owner Financed</li><li>• Delayed 1031 Exchanges are allowed only for down payment and cash to close</li><li>• HELOCs and 2nd liens not permitted</li></ul>
<b>Rate/Term Refinance</b>	<p>Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepays, or buying out a co-owner/partner pursuant to an agreement. A seasoned non-first lien mortgage is a purchase money mortgage or a closed end or HELOC mortgage that has been in place for more than 12 months (and/or not having any draws greater than \$2,000 in the past 12 months for HELOC's. Withdrawal activity must be documented with a transaction history from the HELOC).</p> <ul style="list-style-type: none"><li>• At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. Exceptions are allowed in the following cases:<ul style="list-style-type: none"><li>○ The borrower acquired the property through an inheritance or was legally awarded the property (e.g. divorce, separation, dissolution of domestic partnership).</li><li>○ The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.</li></ul></li><li>• Cash-out Limit. Cash-out to the borrower limited to the lesser of 1% of the principal or \$2,000.</li><li>• Use current appraised value for LTV calculation purposes.</li><li>• Sale Restriction – Property must be removed from listing for at least one month prior to application and LTV will be based on the lesser of the list price or appraised value when listed within the last three months of the application date.</li></ul>
<b>Cash-Out Refinance</b>	<p>A Cash-out Refinance Transaction occurs when an existing mortgage lien is paid-off with the proceeds of a new first mortgage and the excess proceeds are distributed to the borrower. A Cash-out Refinance Transaction also occurs when a borrower obtains a mortgage for a property that is currently owned free and clear and the proceeds from the new loan are distributed to the borrower. All excess proceeds eligible for distribution to the borrower are net of customary fees, prepayment fees and other related closing costs.</p> <ul style="list-style-type: none"><li>• At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. If the subject property is owned for less than six months (Note to Note), a 5% reduction to max LTV is required and the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. Proof of improvements is required, and the purchase price must be documented by the final Closing Disclosure (CD) from the property purchase.</li><li>• Cash back as it relates to the maximum limits is defined as “cash in hand” to the borrower. Net proceeds from a cash-out transaction may be used to meet reserve requirements. Maximum cash out is unlimited for <math>LTV \leq 65\%</math>. For <math>LTV &gt; 65\%</math>, maximum cash out is \$1,000,000.</li></ul>



# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• Sale Restriction - Property must be removed from listing for at least one month prior to the application date. For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value.</li><li>• No waiting period is required if the borrower acquired the property through an inheritance or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership. LTV/CLTV is based on current appraised value.</li><li>• Delayed Financing. Borrowers who have purchased a subject property within the last 6 months preceding the disbursement date of the new mortgage are eligible to receive cash back with the loan being priced and treated as a Cash Out Refinance if the following requirements are met (also see FNMA Guides for additional information):<ul style="list-style-type: none"><li>○ Arm's Length Transaction. The original purchase was an Arm's Length Transaction.</li><li>○ No Existing Mortgage Financing. The original purchase transaction is documented by the settlement statement which confirms that no mortgage financing was used to obtain the subject property.</li><li>○ No Existing Liens. The preliminary title report must confirm that there are no existing liens on the subject property.</li><li>○ Loan Amount Limit. 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 costs, prepaid fees, and points on the new mortgage loan (subject to maximum LTV and CLTV ratios for Cash-out Transactions based on the lesser of the current appraised value or the purchase price).</li><li>○ Source of Funds Paydown. 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), then all cash-out proceeds are to be used to pay-off or pay-down the loan used to purchase the property.<ul style="list-style-type: none"><li>▪ settlement statement for the refinance transaction must reflect the above.</li><li>▪ any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.</li><li>▪ funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.</li><li>▪ Source of funds must be documented. Examples of proper documentation include bank statements, personal loan documents, 401(k) withdrawal statements, or evidence of a HELOC on another property.</li></ul></li></ul></li></ul>
<b>Texas Home Equity Loans 50(a)(6)</b>	Allowable based on FNMA Guides B5-4.1 must adhere to Article XVI, Section 50(a)(6) statute. NOTE: Primary Residences only. Interest Only is prohibited on a Texas Section 50(a)(6) Equity Cash Out loan. Loan must be fully amortized.
<b>Subordinate Financing</b>	MCFI allows subordinate financing provided the following conditions are met: <ul style="list-style-type: none"><li>• The subordinate financing doesn't have a negative amortization or interest only feature.</li><li>• Subordinates with prepayment penalties are not allowed.</li><li>• All subordinate financing must be from a Financial Institution.</li><li>• Subordinate financing payment must be included in the DTI calculation.</li><li>• Max LTV/CLTV cannot exceed Max LTV in Credit Matrix.</li></ul> Required Documentation for subordinate financing: <ul style="list-style-type: none"><li>• Copy of the Note</li><li>• Copy of the Subordination Agreement</li></ul>



# MEGA CAPITAL FUNDING, INC.

<b>Ineligible Transactions</b>	<ul style="list-style-type: none"><li>• Assumable Loans</li><li>• Construction to permanent</li><li>• Loans with Temporary Buydowns</li><li>• Builder Bailout Loans</li><li>• Conversion Loans</li><li>• Lease Options/Rent-to-Own</li><li>• Land Contracts</li><li>• Assignments of the contract to another buyer</li><li>• Graduated Payment Mortgage Loan</li><li>• Ground leases, Buydown Mortgage Loan, Pledged Asset Loans</li><li>• Convertible Mortgage Loan - allows an ARM to convert to a Fixed Rate Mortgage</li><li>• Periodic Payment - Loans must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan.</li><li>• Simple Interest Loans</li><li>• Loans with a negative amortization feature.</li><li>• Payoff of a loan with equity sharing features.</li></ul>
--------------------------------	--

<b>Credit Eligibility</b>	
<b>Analysis of Credit</b>	Data found in credit reports provide pertinent information about an applicant's credit history and borrowing habits. Applicant information sourced from places such as a Residential Mortgage Credit Report (RMCR) or public records can help to build an applicant's credit profile and to meet MCFI eligibility requirements described in this section.
<b>General requirements</b>	<ul style="list-style-type: none"><li>• Merged In-file Credit Report. This report is required and must include reporting from all three national credit repositories.</li><li>• MCFI will pull Credco credit report if a broker's credit report submitted is not on approved credit vendors list.</li><li>• Aging. The credit report should be dated within 90 days of the note and mortgage.</li><li>• Debt Monitoring - An Undisclosed Debt Notification (UDN) is required within 10 days of closing date. Verification of monitoring document needs to clearly show date issued, created or printed within 10 days of closing date showing actively monitoring. We will also accept a credit refresh/gap report within a 10 day window.</li><li>• Evaluation. In general, MCFI will evaluate an applicant's credit report to determine their willingness to pay debts. Among other things, the credit report will be reviewed for:<ul style="list-style-type: none"><li>○ Age of accounts.</li><li>○ Late payments frequency, severity, aging.</li><li>○ Account balance size</li></ul></li></ul>
<b>Credit Scores</b>	A minimum of 2 credit scores is required to be provided for each borrower and is used to determine the qualifying credit score for loan approval. The Representative Credit Score for a borrower is the middle score of 3 FICO scores, or the lower score of 2 FICO scores (when only 2 FICO scores are provided). When more than one borrower qualifies for the loan, the qualifying score is the Representative Credit Score of the Primary Wage Earner. If borrowers are 50/50 owners of a business and income is equal, the higher representative credit score is used for qualifying.
<b>Tradeline Requirements</b>	All borrowers should have an established credit history that is partially based on tradeline history. Only the primary wage earner is required to meet the minimum tradeline requirements below. and if the primary wage earner has 3 credit scores reporting on credit, then the minimum credit tradeline requirements are considered met, unless the only tradelines present are authorized user accounts.



# MEGA CAPITAL FUNDING, INC.

	<p>Authorized User accounts cannot be used to meet minimum tradeline requirements.</p> <table><tr><th>Required Tradelines</th><th>Active reporting Period</th><th>Max DTI Required</th></tr><tr><td>3 Tradelines</td><td>&gt;=12 Months</td><td>50%</td></tr><tr><td>OR</td><td></td><td></td></tr><tr><td>2 Tradelines</td><td>&gt;24 Months</td><td>50%</td></tr></table> <p>Borrowers without the above minimum trade lines may qualify if there is a minimum of:</p> <ul style="list-style-type: none"><li>• At least four years of established credit history as follows:</li><li>• Eight or more tradelines reported.</li><li>• At least one active in the last 12 months. This is defined as last activity within 12 months of the credit report date.</li><li>• At least one of these tradelines must be a mortgage tradeline (can be counted as the active tradeline).</li></ul>	Required Tradelines	Active reporting Period	Max DTI Required	3 Tradelines	>=12 Months	50%	OR			2 Tradelines	>24 Months	50%
Required Tradelines	Active reporting Period	Max DTI Required											
3 Tradelines	>=12 Months	50%											
OR													
2 Tradelines	>24 Months	50%											
<p>Credit Reporting Data included in DTI Ratios</p>	<ul style="list-style-type: none"><li>• Installment Debt. All installment loans (monthly obligations with fixed payments and terms) must be included in the borrower debt-to-income ratio.<ul style="list-style-type: none"><li>○ Excluded from DTI: payments of 10 months or less (if the payment exceeds 5% of the borrower's qualifying income, then MCFI must keep the remaining payments in the DTI)</li><li>○ Excluded from DTI: any installment debt that is paid prior to or at closing can be excluded from the DTI. Supporting documentation is required to verify that these debts have been paid.</li></ul></li><li>• Revolving Debt is an open-ended debt obligation in which the principal balance may vary each month. The minimum required payment stated on the credit report or the current account statement must be used to calculate DTI. If no payment is stated on the credit report, the greater of \$10 or 5% of the current balance should be included in the DTI unless we have sufficient documented excess reserves (in excess of the required minimum reserves requirements) to cover full reporting account balance.<ul style="list-style-type: none"><li>○ Excluded from DTI: revolving accounts can be paid off prior to or at closing in order to exclude the payment from DTI. Supporting documentation such as a credit supplement or verification from creditor is required.</li></ul></li><li>• Lease Obligations must be included in the DTI regardless of the time remaining on the lease.</li><li>• Paystub Deductions are included in DTI (excluding 401(k) repayments)</li><li>• Child Support, Alimony or Maintenance Obligations. Must be current at the time of application and must be included in the DTI. The loan file should contain supporting documentation (such as a final divorce decree, legal separation agreement or court order) evidencing the obligation. If payments are delinquent, then they must be brought current prior to the loan closing.</li><li>• Contingent Liabilities. An individual has contingent liabilities when an outstanding debt obligation has been assigned to another party, but the creditor has not released the borrower from the obligation. Contingent Liabilities must be included in the DTI.<ul style="list-style-type: none"><li>○ Excluded from DTI: if one borrower was obligated to buy-out the other borrower as a result of a divorce, then the loan file should include the separation agreement and or the divorce decree/court order that shows transfer of ownership. In addition, the current obligation on the premise must be current.</li><li>○ Excluded from DTI: debts paid by others can be excluded from the DTI ratio if the debt is being paid in a satisfactory manner by another party for the past 6 months. Acceptable documentation would include cancelled checks or bank statements that consistently show another party making at least the past 6 payments.</li></ul></li></ul>												





<b>Credit Reporting for Business Debt</b>	<p>Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well. If business debt is reflected on a personal credit report and the business debt is less than 6 months old, then the debt must be included in the DTI. If the business debt is greater than or equal to 6-months old, the debt may be omitted from the DTI if the borrower provides documentation that the borrower's business is making the payments on the debt. Acceptable documentation includes the most recent 6 months of cancelled checks or bank statements showing the debt as paid from the business account.</p>
<b>Housing History</b>	<p>Verification of Mortgage / Verification of Rent (VOM/VOR): Applications must be supported by the most recent 12-month mortgage or rent pay history. A VOM should be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report including private mortgages. The VOM/VOR is reviewed for delinquencies with the greatest weight focused on the last 12- months depending on housing history requirement (1x30x12). Verification needs to reflect pay history up to date as of application and must be current at closing. If Credit Bureau Report does not reflect pay history required, other acceptable methods of verification are as follows:</p> <p>For mortgage payments</p> <ul style="list-style-type: none"><li>• VOM obtained from Mortgage Servicer</li><li>• Electronic Pay History printout obtained directly from Mortgage Servicer showing timely payments</li><li>• Bank Statements showing account ownership and timely payments debited by Mortgage Servicer</li><li>• Credit Supplement showing paid as agreed.</li><li>• Cancelled checks front and back as well as the most recent mortgage statement.</li><li>• For private mortgages, provide a fully executed VOM together with either bank statements showing account ownership and timely payments debited by Mortgage Servicer OR cancelled checks front and back along with the most recent mortgage statement.</li></ul> <p>For rental payments</p> <ul style="list-style-type: none"><li>• If was/is renting from a private party, obtain either fully executed VOR OR most recent lease for the property address in question. In either case, the verification of timely payments made is required (either canceled checks front and back OR bank statements showing account ownership and payments debited by landlord) are required.</li><li>• If was/is renting from a management company, obtain fully executed VOR. Otherwise, obtain the most recent lease, along with payment history ledger from management company, canceled checks front and back OR bank statements showing account ownership and payments debited by management company</li></ul> <p>Note: Any properties owned free and clear by the borrower(s) are considered as a 0x30 housing history for grading purposes for each month the property has been owned free and clear (e.g. a property owned free and clear for the last 12 months satisfies the housing history requirement). Documentation verifying free and clear is required such as property detail report, data verify report, title search, etc.</p>
<b>No housing history or less than 12 months verified</b>	<p>This section applies to any borrower who has not made at least 12 months of housing payments on any property (or as a tenant in a rental situation) in the most recent 12 months.</p> <p>NOTE: If loan application/1003 shows a rented/property owned in the last 12 months, a fully executed VOR/VOM must be obtained for those month's available reflecting paid as agreed. *Excluding address history that is documented as rent free.</p> <p>Borrowers who do not have a complete 12-month housing history are subject to the following restrictions:</p> <ul style="list-style-type: none"><li>• Primary residence only</li><li>• Minimum 6 months reserves after closing</li></ul>



# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• 10% minimum borrower contribution</li><li>• Max 45% DTI</li><li>• Fully executed VOR/VOM must be obtained for all month's available reflecting paid as agreed, if applicable</li></ul> <p>Borrowers living rent free at their primary residence may be eligible but only if they live with a non-borrowing spouse. (This is still considered no housing history and subject to the restrictions mentioned in this guide.) To be eligible, the non-borrowing spouse must provide a rent-free letter, and evidence of an acceptable 12-month housing payment history (mortgage or rent payment) from the non-borrowing spouse must be obtained.</p> <p>Borrowers living rent-free with any person other than a non-borrowing spouse are not eligible.</p>
<b>Other Credit and Credit Reporting Requirements</b>	<ul style="list-style-type: none"><li>• Authorized Users of Credit. Credit report tradelines in which the applicants are "authorized users" may not be considered in the underwriting decision except in certain circumstances such as those listed here:<ul style="list-style-type: none"><li>○ Another borrower in the subject mortgage transaction is the owner of the tradeline.</li><li>○ The borrower is an authorized user on a spouse's credit report tradeline.</li><li>○ The borrower can provide written documentation that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.</li></ul></li><li>• Student Loan payments and deferment will be reviewed in accordance with FNMA guides.</li></ul>
<b>Credit Counseling, Collections, Judgements, Liens</b>	<ul style="list-style-type: none"><li>• Judgements, Garnishments and Liens: The borrower is required to pay-off all open judgements, garnishments, and liens (including mechanics liens or material men's liens) prior to the loan closing.</li><li>• Credit Counseling 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. 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, then exclude these balances from the charge-off and collection limits listed below. 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 eligible establishing the date of completion.</li><li>• Collection Accounts and Charge-offs do not have to be paid in full if the following applies:<ul style="list-style-type: none"><li>○ Collections and charge-offs &lt; 24 months old with a maximum cumulative balance of \$2,000,</li><li>○ Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence,</li><li>○ Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required),</li><li>○ All medical collections.</li><li>○ Exception: IRS repayment plans with 3 months history of payments may remain unpaid. The payment must be included in DTI.</li></ul></li><li>• Past Due Accounts must be brought current.</li></ul>
<b>Forbearance, deferred payments, modifications</b>	<ul style="list-style-type: none"><li>• COVID Forbearance must be released and fully current.</li><li>• Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing.</li></ul>





# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"> <li>Mortgage Loan Modifications are acceptable with 36 months seasoning, min 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are: <ul style="list-style-type: none"> <li>Forgiveness of a portion of principal and/or interest on either the first or second mortgage.</li> <li>Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.</li> <li>Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage.</li> <li>Conversion of any portion of the original mortgage debt from secured to unsecured.</li> </ul> </li> </ul>
<b>Significant Adverse Credit</b>	Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off Mortgage, NOD and or Foreclosure must be seasoned at least <b>36 months</b> from time of application.
<b>Security Freeze</b>	<p>If the borrower's credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable as long as:</p> <ul style="list-style-type: none"> <li>Credit data is available from two repositories,</li> <li>A credit score is obtained from at least one of those two repositories, and</li> <li>The lender requested a three in-file merged report.</li> </ul>
<b>Credit Repair/Rescore</b>	<ul style="list-style-type: none"> <li>This is allowed when the credit report was provided by the broker.</li> </ul>

Income Requirements																																	
<b>Verbal verification of employment</b>	A VVOE is required for all borrowers and must be completed within 10 business days (Wage earner) or 20 business days (Self-employed) of the note date.																																
<b>Full Doc Program Overview</b>	<p>For all loan programs and/or income options, any decline or large fluctuation in income that is documented in the file requires an explanation from the borrower regarding the decline/fluctuation.</p> <p>MCFI will accept Full Documentation (Full Doc) for the following Wage Earner types. All Wage Earner loans require an executed 4506-C or 8821 and income will be calculated in accordance with the most recent FNMA Guides. 2 years of employment history must be verified for all documentation types.</p> <ul style="list-style-type: none"> <li>24 Month Wage Earner</li> <li>24 Month Self-Employed borrower</li> <li>12 Month Wage Earner</li> <li>12 Month Self-Employed borrower</li> </ul>																																
<b>Full Doc Requirements</b>	<p>The following table summarizes the required documentation for our Full Doc Wage Income Earner types:</p> <table border="1"> <thead> <tr> <th rowspan="2">Required Documentation</th><th colspan="4">Wage / Income Earner Type</th></tr> <tr> <th>24 Month Full Doc Wage Earner</th><th>12 Month Full Doc Wage Earner</th><th>24 Month Full doc Self-employed</th><th>12 Month Full Doc Self-employed</th></tr> </thead> <tbody> <tr> <td>Paystubs</td><td colspan="2">Current paystub dated within 30 days of application date that includes all year-to-date earnings</td><td>N/A</td><td>N/A</td></tr> <tr> <td>W-2 Forms</td><td>Most recent 2 years</td><td>Most recent 1 year</td><td>If applicable</td><td>If applicable</td></tr> <tr> <td>VVOE</td><td colspan="2">10 business days prior to note date</td><td colspan="2">20 business days prior to note date</td></tr> <tr> <td>3<sup>rd</sup> Party verification of Business</td><td>N/A</td><td>N/A</td><td colspan="2">           Verification Business has been established for a minimum of 2 years:           <ul style="list-style-type: none"> <li>from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or</li> <li>by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.</li> </ul> </td></tr> </tbody> </table>				Required Documentation	Wage / Income Earner Type				24 Month Full Doc Wage Earner	12 Month Full Doc Wage Earner	24 Month Full doc Self-employed	12 Month Full Doc Self-employed	Paystubs	Current paystub dated within 30 days of application date that includes all year-to-date earnings		N/A	N/A	W-2 Forms	Most recent 2 years	Most recent 1 year	If applicable	If applicable	VVOE	10 business days prior to note date		20 business days prior to note date		3 <sup>rd</sup> Party verification of Business	N/A	N/A	Verification Business has been established for a minimum of 2 years: <ul style="list-style-type: none"> <li>from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or</li> <li>by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.</li> </ul>	
Required Documentation	Wage / Income Earner Type																																
	24 Month Full Doc Wage Earner	12 Month Full Doc Wage Earner	24 Month Full doc Self-employed	12 Month Full Doc Self-employed																													
Paystubs	Current paystub dated within 30 days of application date that includes all year-to-date earnings		N/A	N/A																													
W-2 Forms	Most recent 2 years	Most recent 1 year	If applicable	If applicable																													
VVOE	10 business days prior to note date		20 business days prior to note date																														
3 <sup>rd</sup> Party verification of Business	N/A	N/A	Verification Business has been established for a minimum of 2 years: <ul style="list-style-type: none"> <li>from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or</li> <li>by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.</li> </ul>																														



	Personal Tax Returns	Most recent 2 years 1040's including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment)	Most recent 1 year 1040's including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment)	Most recent 2 years Form 1040 including all schedules and YTD P&L.	Most recent 1 year Form 1040 including all schedules and YTD P&L.
	Partnership Returns	N/A	N/A	Most recent 2 years Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.	Most recent 1 year Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.
	K-1s (If applicable)	N/A	N/A	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
	Corporate Tax Returns	N/A	N/A	Most recent 2 years Form 1120 and YTD P&L	Most recent 1 year Form 1120 and YTD P&L
	<ul style="list-style-type: none"><li>• If business/self-employed borrowers tax returns are on extension, then the borrower will need to supply their most recent filed tax return and a signed P&amp;L through the most recent quarter (if applicable) and a P&amp;L from the previous year.</li><li>• A completed IRS Form 4506-C (signed by the borrower) for the year in question and IRS transcripts that validate the tax return.</li></ul>				
Full Doc – Unscheduled Income	<p>Borrowers can receive income from many different sources and different pay structures. The following details describe methods used in determining a borrower's average monthly income based on these income source variations. Applicants with unscheduled income are eligible borrowers according to the following guidelines and requirements:</p> <p><b>Bonus, Commission and Overtime Income</b></p> <ul style="list-style-type: none"><li>• A two-year history receipt is required. Borrowers in the same line of work but with different employers will be considered on an exception basis.</li><li>• Documentation requirements: In addition to a current paystub and W2's, obtain a written verification of employment (WVOE), breaking down bonus, commission and/or overtime pay for the current year as well as the prior 2 years. Absent a WVOE, year-ending paystubs from the prior 2 years can be used to verify bonus, commission and/or overtime pay.</li><li>• Careful consideration must be given to the pay structure of the income type when qualifying income. For example, bonus income may only be paid on an annual basis. When that is the case, and the annual bonus has been paid out as evidenced by the current paystub, that figure must be annualized for income calculation purposes.</li><li>• A declining trend should be carefully considered whereby an appropriate income calculation should be applied. For example, if a borrower earned less in commission income in the most recent year, an income average from the most recent year should be utilized as opposed to averaging with the previous year where more income was earned.</li><li>• There should be no indication that the income will not continue for the foreseeable future</li></ul>				



## **Seasonal Employment/Unemployment**

- Borrower must have worked for the same employer for the past 24-months. If the borrower is employed by a union (construction, electrical, plumbing) and are placed on different jobs over a period that is considered acceptable.
- A Written Verification of Employment (WVOE) is required stating that there is a reasonable expectation of returning the next season
- Unemployment Compensation for time-off has been consistent for the past 24 months and coincides with the seasonal job
- Income must be annualized over a 12-month period for qualifying purposes unless income is declining

## **Rental Income- Full Doc- All properties except departing residence**

- Required Documentation: Most recent year's personal tax return including Schedule E. In addition, a copy of a current unexpired, executed lease is required along with the most recent 2 months proof of rent receipt (e.g. cancelled checks, bank statements). If the lease is not current, the lease must indicate that the original term converts to month-to-month or there must otherwise be evidence that the lease converted month-to-month. Rental income must be derived solely from the ownership of rental properties as declared on the Schedule E.
- For newly acquired rental property, a copy of the executed lease is required along with verification of the security deposit and evidence that first month's rent has been deposited into the borrower's account. The property may not be leased to a family member. The property must have been purchased subsequent to the most recent tax year (i.e. would not yet be reported on Schedule E).
- For purchase transaction of an investment property, copies of the current lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If property is not currently rented (i.e. vacant per appraiser), or if the existing lease is not being transferred to the borrower, then lease agreements are not required and appraisal Form 1007 or 1025 (as applicable) will be used to determine gross market rent.
- Rental income from short term leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals) are allowed with a two-year history (12 months if doing a one year income program) of receipt as reported on Schedule E of the borrower's personal tax returns. Evidence that the property is currently being offered for rent in the same manner is required. Short-term rental income for the subject property in a purchase transaction is not allowed and Form 1007 or 1025 cannot derive market rent based on short-term rental income. A two-year history is required and proof of current receipt of rental income being received is required.

Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:

- Appraisal must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance).
- The appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least rental comparable with an accessory unit in which the ADU receives rental income.
- Multiple accessory units are not permitted
- Refinance: Market rent for the accessory unit should be documented on Form 1007, and the file must include a copy of the current lease with two months proof of current receipt. The qualifying income must be derived from the most recent tax returns, Sch E.
- Purchase: Use the lesser of the market rent on Form 1007 or the lease agreement if the subject is an investment property. Rental income from an ADU is not allowed for primary residences and second homes.
- Landlord history is not required to use rental income under the Full Doc Program.

**Departing Residence (rental income)**

- The property may not be leased to a family member
- Lease agreement must be for a minimum 12-month term
- Copy of the executed lease, verification of security deposit and proof of the first-month's rent deposited to borrower's account

**NOTE:** In all departing residence rental income instances, qualifying rental income will be gross rents x 75% to account for vacancy losses and ongoing maintenance expenses.

**Housing and Automobile Allowance:**

Please refer to FNMA Guides

**RSU Income – Restricted Stock:**

- Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options. Restricted stock must be vested as well as received on a regular, recurring basis.

The following documentation is required:

- Issuance agreement or equivalent (part of the benefits package), and
- Schedule of distribution of units (shares), and
- Vesting schedule, and
- Evidence that stock is publicly traded, and
- Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)

Calculation of income:

- To determine the restricted stock price, use the lower of:
  - 1) Current stock price, or
  - 2) The two-year stock price average
- Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested each year.
- Future vesting must support qualifying income.

**Interest and Dividend Income:**

- The most recent 2 years of personal tax returns including Schedule B are required.
- Current documentation of the asset(s) that is producing the interest or dividend is required and must support a 3-year continuance.
- Ineligible Interest and Dividends - Income from interest-bearing or dividend-producing assets being used for the down payment or closing costs are not eligible.
- Ineligible Interest and Dividends - Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow.

**Capital Gains/Losses, Royalties, Notes Receivable, Trust, Lottery Winnings, Employee Contracts, Alimony and Child Support:**

- Verification that these sources of income will continue for a minimum of 3-years is required.
- A minimum of 12-month history of receipt is required
- 2 years of tax returns are required (for capital gains income only)

**Non-Taxable Income:**

- Non-taxable income can be grossed up by 125% or by borrower's income tax bracket, whichever is less.



	<ul style="list-style-type: none"><li>• NOTE: At certain levels Non-Taxable Income could be subject to taxation and some income types may contain both taxable and non-taxable income. Federal Tax Returns may be required to accurately determine the non-taxable portion. Refer to FNMA Guides.</li></ul>
<b>Full Doc – Determining Income for Self-Employed Borrowers</b>	<p><b>Business Verification</b></p> <ul style="list-style-type: none"><li>• A Third-Party Verification of the existence of the borrower's business is required within 20 business days of the Note date.</li><li>• Verification must be from a third-party, such as a CPA, Enrolled Agent, CTEC or Chartered Tax Adviser, Third-party Licensed Tax Preparer (excluding PTIN tax preparers, PTIN preparers that work for a 3rd party firm may be permitted by exception only.), a Regulatory Agency or an applicable Business License Verification of the business to include a phone listing and address using an independent third-party, i.e., Internet Search.</li></ul> <p><b>General Requirements for Self Employed Income (Full Doc)</b></p> <ul style="list-style-type: none"><li>• Applicants must own at least 25% of a business to be considered self-employed.</li><li>• Applicants must have been successfully self-employed for a minimum of two full years. If the business is stable and shows an upward trend, then the income used for the applicant is averaged over the 2 most recent years' Form1040s. Case-by- case determinations will be made if the business shows a decreasing/downward trend.</li><li>• Borrowers should be self-employed for at least two years with the same business. However, a borrower may qualify with less than two years but more than one year of self-employment with the same business if the borrower can document at least two years of previous successful employment in the same line of work in which the person is currently self-employed, OR one year of previous successful employment in the same line of work and one year of formal education or training in the same line of work.</li><li>• Copies of all required business licenses are required.</li><li>• YTD P&amp;L is required.</li></ul> <p><b>Cash Flow Analysis (Full Doc)</b></p> <ul style="list-style-type: none"><li>• When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate enough income to enable these borrowers to meet their financial obligations.</li><li>• If the Schedule K-1 provides confirmation that distributions have been made equivalent to the business income being qualified OR that the business has adequate liquidity to support the withdrawal of earnings, no further documentation of business liquidity is required.</li><li>• If the Schedule K-1 does not support distributions or adequate liquidity, the most appropriate business liquidity formula based on how the business operates should be used to determine liquidity:<ol style="list-style-type: none"><li>1. Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.<ul style="list-style-type: none"><li>• Quick Ratio = (current assets minus inventory) ÷ current liabilities</li></ul></li></ol></li></ul>





	<p>2. Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.</p> <ul style="list-style-type: none"><li>• Current Ratio = current assets ÷ current liabilities</li></ul>
<b>Full Doc – Requirements for Corporate Structures</b>	<p>The legal structure of a business determines how income/loss is reported to the IRS, how its taxes are paid and how it accumulates capital. Legal structures also determine the extent of each owner's liability. The five principal business structures are:</p> <p><b>Sole Proprietorship:</b> Business income, expenses and taxable profits are reported on Schedule C of the Individual Tax Return. Required documentation for a Sole Proprietorship include:</p> <ul style="list-style-type: none"><li>• Federal Individual Income Tax Return Form 1040 for the most recent 2 years including Schedule C. The tax returns must be signed by the borrower(s) with all applicable schedules.</li><li>• YTD P&amp;L and Balance Sheet prepared by borrower or CPA.</li></ul> <p><b>A Partnership (General or Limited):</b> Is when two or more owners are joined by contract to conduct business and will share profits and losses according to the partnership agreement. Income taxes are paid by the individuals since the partnership itself is not required to pay taxes. Partnership documentation required:</p> <ul style="list-style-type: none"><li>• Federal Business &amp; Personal Tax Returns for the most recent 2 years. The tax returns must be signed by the borrower(s) with all applicable schedules.</li><li>• Schedule K-1 (Partners share of Income) for the most recent 2 years.</li><li>• YTD P&amp;L and Balance Sheet prepared by a CPA or borrower.</li></ul> <p><b>Limited Liability Company (LLC):</b> An LLC is a business structure that blends the tax efficiencies of a partnership and the limited liability of a corporation. LLCs report profit or loss on IRS Form 1065 and each member-owner's share of that profit/loss is reported on Schedule K-1. An LLC pays no tax on its income. Each member-owner uses the information on the K-1 to report their share of the LLC's net profit or loss on their individual IRS Form 1040 (regardless of whether the member-owner receives a cash distribution from the LLC). LLC documentation required:</p> <ul style="list-style-type: none"><li>• Federal Business &amp; Personal Income Tax Returns for the most recent 2 years. The tax returns must be signed by the borrower with all applicable schedules.</li><li>• Schedule K-1 (Partner's Share of Income) for the most recent 2 years.</li><li>• YTD P&amp;L and Balance Sheet prepared by a CPA or borrower.</li></ul> <p><b>S Corporation:</b> An S Corp is a legal entity that has a limited number of stockholders that elect not to be taxed as a regular corporation. Business gains and losses are divided among and passed through to stockholders. The stockholders are taxed at their individual tax rate for their proportionate share of ordinary income, capital gains and other taxable items. An S Corp provides many of the benefits of partnership taxation and at the same time provides the owners with limited liability protection.</p> <p>The ordinary income from an S Corporation's business is reported on IRS Form 1120S with each shareholder's share of income reported on Form 1120S's Schedule K-1. Cash distributions from an S-Corp to a borrower will be reviewed and considered when evaluating the cash flow of the S-Corp. S-Corp documentation required:</p> <ul style="list-style-type: none"><li>• Federal Individual Income Tax Return Form 1040 for the most recent 2-years. Tax returns must be signed by the borrower with all applicable schedules.</li><li>• Schedule K-1, Shareholder's share of income, deductions, credits etc., for the most recent 2 years.</li><li>• IRS Form 1120S Income Tax Return for the S Corp's most recent two years (if the ownership is greater than or equal to 25%.)</li></ul>





# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• YTD P&amp;L and Balance Sheet prepared by a CPA or borrower.</li></ul> <p><b>C Corporation:</b> A C-Corp is a legal tax paying entity with its own rights privileges and liabilities separate from those of its owners. A C-Corp can sue, be sued, hold, convey, or receive property, enter contracts under its own name and doesn't dissolve when ownership changes. C-Corp documentation required:</p> <ul style="list-style-type: none"><li>• Federal Individual Income Tax Return Form 1040 for the most recent 2 years. Tax returns must be signed by the borrower with all applicable schedules.</li><li>• IRS Form 1120 Income Tax Return for the C-Corp's most recent two years.</li><li>• YTD P&amp;L with Balance Sheet prepared by a CPA or borrower.</li><li>• Business income from a C-Corp cannot be considered unless the borrower is 100% owner of the corporation (i.e. only the borrower's wage income can be qualified).</li></ul> <p><b>NOTE:</b> YTD financials from other entities (whose income is not needed to qualify) are not required if the previous two years' tax returns show positive income.</p>
<b>Declining Income</b>	<p>If income is declining year-over-year, then the lowest income year will be used to qualify the borrower. A letter of explanation detailing the reason for the decline and the possibility of further income deterioration is required.</p>
<b>Bank Statement Analysis</b>	<p>The following is required for both the Personal Bank Statement option and the Business Bank Statement option:</p> <ul style="list-style-type: none"><li>• Borrowers should be self-employed for at least two years with the same business. However, a borrower may qualify with less than two years but more than one year of self-employment with the same business if the borrower can document at least two years of previous successful employment in the same line of work in which the person is currently self-employed, OR one year of previous successful employment in the same line of work and one year of formal education or training in the same line of work.</li><li>• Businesses should be established and have been in existence for the past two years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time that the borrower has been self-employed.</li><li>• A 3rd party verification that the business is in existence, in good standing and active is required.</li><li>• All parties listed on a personal bank account used for income must be included as borrowers on the loan.</li><li>• Bank statements used for income must be consecutive and reflect the most recent months available.</li><li>• Bank statements must support stable and generally predictable deposits. Large and unusual deposits as determined by the underwriter, must be sourced. Otherwise, they must be excluded. Cash is not an acceptable deposit source when not customary to the business type.</li><li>• Net Decrease - The underwriter must evaluate deposit and withdrawal patterns and determine whether or not the income used for qualifying is stable. Account withdrawals that are consistently greater than deposits may be a sign of declining cash flow/income. As a result, declining income may require an explanation from the borrower or their tax preparer (excluding PTIN tax preparers) and may result in loan disqualification if the income is deemed unstable. If the explanation is from the CPA/Licensed Tax Preparer, they must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower's business if they have not done so somewhere else in the loan file.</li><li>• Non-Sufficient Funds (NSF) - MCFI defines an NSF occurrence as any day that the account ends the day with a negative balance. NSFs typically result in a fee charged</li></ul>



	<p>by the financial institution. MCFI will allow up to three (3) NSF occurrences within the last 12 months. An LOE from the borrower must be satisfactory.</p> <ul style="list-style-type: none"><li>• To avoid being treated as a Non-Sufficient Funds (NSF), there should be no fee associated with resolving an overdraft. NSFs are tracked on an "instance" basis, which is defined as a single occurrence of an account being overdrawn and then brought back to a current state. An instance can involve multiple NSFs; however, it remains the same instance until the account is restored to a current balance. If the account is brought current and then becomes overdrawn again, this subsequent occurrence would be classified as a new instance.</li><li>• Overdraft Protection (OD) - MCFI considers an overdraft to be an event where an account has gone negative but is linked with another account or line of credit with the same financial institution. MCFI will allow these and treat them as an isolated incident (i.e not an NSF) provided the account does not end the day with a negative balance and shows a transfer from another account. An LOE from the borrower must be satisfactory.</li><li>• Deposits in the form of transfers from other accounts are generally excluded as qualifying deposits unless it is a wire transfer from another company for services rendered.</li><li>• MCFI will consider other forms of income used in conjunction with the Bank Statement Program such as W2 income or fixed income such as Social Security Benefits.</li><li>• When a signed and dated Third Party P&amp;L is provided, it must cover the same dates as the bank statements.</li></ul>
<b>Personal Bank Statements</b>	<p>The following documentation is required:</p> <ul style="list-style-type: none"><li>• 12-months complete personal bank statements (multiple bank accounts may be used) dated within 30 days of application: and</li><li>• Two (2) months business bank statements (to support the borrower does maintain separate account(s)). If business bank statements cannot be provided to evidence a separate business account, then a 10% expense factor may be applied as long as there is no indication that the personal assets are a co-mingled account.</li><li>• Transaction histories are not acceptable.</li><li>• The Initial 1003 with monthly income disclosed.</li><li>• Bank statements reflecting other individuals except non-borrowing spouse who are not applicant on the loan are not eligible.</li><li>• When spousal joint accounts are used, the borrower must be 100% owner of the business, all income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant.</li></ul> <p>The following apply when analyzing personal bank statements:</p> <ul style="list-style-type: none"><li>• All deposits into the personal account that can be validated as being business-related deposits can be qualified. Total deposits are not reduced by an expense factor.</li><li>• Large and/or unidentified deposits as determined by the underwriter must be sourced. If it is determined that any deposit did not come from the borrower's business, the deposit must be excluded from the income calculation.</li><li>• Transfers will be excluded unless they are from the borrower's business account.</li><li>• Cash is not an acceptable deposit source when not customary to the business type.</li></ul> <p><b>Qualifying income is 100% of the total business-related deposits divided by 12 months (or net business-related deposits reduced by applicable expense ratio when no supporting business accounts are provided)</b></p>



# MEGA CAPITAL FUNDING, INC.

	<p>1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income. The letter of explanation can come from the Loan Officer or Underwriter.</p>
<b>Business Bank Statements</b>	<p>The following documentation is required:</p> <ul style="list-style-type: none"><li>• 12-months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that will be acceptable). Comingling of multiple accounts to generate a full 12 months is not permitted.</li></ul> <p>The following apply when analyzing business bank statements:</p> <ul style="list-style-type: none"><li>• Reasonable and Customary Eligible Business Expenses from personal bank accounts:<ul style="list-style-type: none"><li>○ Personal bank accounts that are addressed to a DBA.</li><li>○ Personal bank accounts that can evidence use for business expenses.</li><li>○ Blended bank statements are allowed on a case-by-case basis with sole proprietor structure.</li></ul></li><li>• Wire transfers from other accounts must be either documented as business-related or excluded from the income/deposit calculation. Cash is not an acceptable deposit source when not customary to the business type.</li><li>• Transaction histories are not acceptable.</li><li>• Borrowers must have at least 25% ownership of the business. MCFI must verify the borrower's percentage of ownership. Acceptable forms of documentation that clearly state ownership percentage include a business license, a signed written statement from a CPA or a Third-Party Tax Preparer (excluding PTIN tax preparers), an Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or a Business Certificate filed with a governmental agency. Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership.</li></ul> <p><b>Qualifying Income will be determined based on one of the following calculations below.</b></p> <ul style="list-style-type: none"><li>• <b>Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by a fixed expense factor of 50%. Divide by 12 months.</b><ul style="list-style-type: none"><li>○ Calculation Example: \$500,000 in total deposits X 60% ownership percentage reduced by a 50% expense factor ÷ 12 months of bank statements = \$12,500/month in qualifying income.</li></ul></li></ul> <p style="text-align: center;"><b><u>OR</u></b></p> <ul style="list-style-type: none"><li>• <b>Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by an expense factor as provided by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers not allowed). Divide by 12 months. The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business.</b><ul style="list-style-type: none"><li>○ Calculation Example: \$300,000 in total deposits X 40% ownership percentage reduced by a 20% expense factor from a CPA ÷ 12 months of bank statements = \$8,000/month in qualifying income.</li></ul></li></ul> <p style="text-align: center;"><b><u>OR</u></b></p> <ul style="list-style-type: none"><li>• <b>Use the net income from a 12 or 24-month P&amp;L that is prepared by a validated third-party preparer to calculate the monthly qualifying income (i.e. divide the net profit on the P&amp;L by 12 months). 12 months of business bank statements covering the same time period as the P&amp;L are required to support</b></li></ul>



# MEGA CAPITAL FUNDING, INC.

	<p>the gross revenues reported on the P&amp;L within a reasonable amount as determined by the underwriter. A borrower prepared P&amp;L will not be permitted under any circumstances. The P&amp;L must be completed by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers not allowed) whereby they must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower's business.</p> <p>1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income. The letter of explanation can come from the Loan Officer or Underwriter.</p>
<b>Rental Income – Alt Doc</b>	<p>In all instances when utilizing rental income, qualifying rental income will be gross rents x 75% to account for vacancy losses and ongoing maintenance expenses. For non-subject investment properties rental income from investment properties not associated with the borrower's business may do so by providing a current active lease together with proof of rent payments received for the most recent 2 months. If there is a newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent.</p> <p>Rental income may only be used with the following income docs. Rental income alone is not allowed under the Alt Doc program.</p> <ul style="list-style-type: none"><li>• 12-24 Bank statement</li><li>• 1099 reduced doc</li></ul> <p>If the subject property is leased on a short-term basis utilizing an online service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of rental income. In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental.</p> <p>A 5% LTV reduction is required when using STR to qualify.</p> <p>The following STR loan scenarios do not require a 12-month lookback or actively marketed verification if documentation is provided showing that the home is in a short-term rental market with no restrictions (i.e. Code enforcements, county, city, HOA restrictions, etc.) as determined by the appraiser. Form 1007 or 1025 based on short-term rental comparables will be required:</p> <ul style="list-style-type: none"><li>• New construction properties- completed within 120 days of application</li><li>• Owner-occupied properties by the seller that are being converted to STR by the buyer</li><li>• Properties previously used as long-term rentals that are being converted to STRs may be allowed on an exception basis only.</li></ul> <p>For purchase transaction of an investment property, copies of the current lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If property is not currently rented (i.e. vacant per appraiser), or if the existing lease is not being transferred to the borrower, then lease agreements are not required and appraisal Form 1007 or 1025 (as applicable) will be used to determine gross market rent.</p> <p>Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:</p>





# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• Appraisal must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance),</li><li>• The appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least rental comparable with an accessory unit in which the ADU receives rental income.</li><li>• Multiple accessory units are not permitted.</li><li>• Refinance: Market rent for the accessory unit should be documented on Form 1007, and the file must include a copy of the current lease with two months proof of current receipt.</li><li>• Purchase: Use the lesser of the market rent on Form 1007 or the lease agreement if the subject is an investment property. Rental income from an ADU is not allowed for primary residences and second homes.</li></ul> <p>If attempting to use rental income from a departing residence, a copy of the executed 12 month term lease, verification of receipt of the security deposit and proof of the first month's rent deposited to borrower's account is required. The property may not be leased to a family member.</p>
<b>1099 Reduced Doc Income</b>	<p>Borrowers who have a two-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least one year of receiving 1099 in the same line of work may utilize this program.</p> <ul style="list-style-type: none"><li>• Borrower must provide the following:<ul style="list-style-type: none"><li>○ 1099 for the previous two tax years, payable to the borrower and not a business</li><li>○ Verification of Employment from the current contract employer covering the most recent two years plus Year-to-Date earnings, likelihood of continued contractor status and whether or not the contractor is required to pay for any business-related expenses (non-reimbursed). If the verification does not reference related expenses, then a Fixed Expense Ratio of 10% may be used.</li><li>○ Most recent two months proof of receipt is required in the form of paystubs, checks or bank statements.</li></ul></li></ul> <p><b>NOTE:</b> If WVOE cannot be obtained for any employers in 2-year history, an LOE is required regarding extenuating reason it cannot be obtained as well as year end and year to date paystubs from all employers to support income calculation.</p> <p><b>Qualifying income will be 2-year averaged income on 1099 minus expenses described above. Current YTD earnings should support the eligible income.</b></p> <p><b>NOTE:</b> Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominant income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.</p>
<b>Residual Income</b>	<p>In accordance with ATR standards, a monthly residual income calculation must be completed. Minimum residual income is \$1,500/month is required on all loan products. The formula for this calculation is:</p> <ul style="list-style-type: none"><li>• Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income</li></ul>

<b>Assets</b>	
<b>Assets</b>	<p>Measuring liquid assets is a good way to determine if a borrower has sufficient funds to pay for a down payment, closing costs and required reserves. The following is a list of established assets that can be used to determine a borrower's liquidity. Next to each asset is the value that MCFI assigns based on its liquidity.</p> <ul style="list-style-type: none"><li>• Checking and Savings (100%)</li></ul>



# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• Certificates of Deposit (100%)</li><li>• U.S. Savings Bonds (100% if fully matured, otherwise 80%)</li><li>• Marketable Securities (100% net of margin debt). Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded.</li><li>• Restricted Stock Units (RSU). Refer to FNMA Guides.</li><li>• IRA, Keogh, and 401(K) Retirement Accounts including ROTH - (80% of vested balance less outstanding loans secured against it for under eligible retirement age, 100% of vested balance less outstanding loans secured against it for eligible retirement age) Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility.dated within 30 days of note date due to market volatility</li><li>• Annuities (60%). Only amounts accessible within a 30-day window are allowed.</li><li>• Pension Plans (60%). Only amounts accessible within a 30-day window are allowed Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility.</li><li>• Trust Accounts (100%). Must review a copy of the full Trust.</li><li>• The use of business assets for self-employed borrowers for down payment, reserves and closing costs are allowed. The borrowers on the loan must have 50% ownership of the business and must be the owners of the account. Access letters from the remaining owners of the business must be obtained as well. A letter from a CPA, Third-Party Tax Preparer (excluding PTIN tax preparers) or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. The CPA must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business. If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client to determine if the withdrawal of funds from the business is acceptable.</li><li>• Spousal accounts - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in Verification of Assets.</li><li>• Crypto Currencies, Bitcoin and Ethereum, are an eligible source of funds for down payment and closing costs and reserves. For down payment and closing cost, the assets must be liquidated and deposited into an established US bank account. For reserves, documentation to prove ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date at 60% of the current valuation. If the borrower transfers the cryptocurrency into a U.S. financial institution prior to closing, 100% of the funds can be used for reserves.</li><li>• Delayed 1031 Exchange funds for "like-kind exchange" are eligible for EMD, down payment and closing costs. 1031 Exchange funds are ineligible for reserves.</li></ul>
<b>Verification of Assets</b>	<ul style="list-style-type: none"><li>• Verification of Deposit (VOD) Form - The information must be requested directly from the depository institution. The completed, signed, and dated document must be sent directly from the depository institution and dated within 30 days of the application date.</li><li>• Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent periods. A summary statement will not be accepted.</li><li>• Large cash deposits are not an acceptable asset source.</li><li>• Large deposits must be sourced. Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan.</li><li>• The statements may be computer generated forms, but must include or state the following:</li></ul>





# MEGA CAPITAL FUNDING, INC.

	<ol style="list-style-type: none"><li>1. Clearly identify the borrower as the account holder, the account numbers, the time the statements cover. Include all deposits and withdrawal transactions. The report must include the previous close balance, the current balance, and the ending account balance.</li><li>2. Retirement account statements must be from the most recent period and identify the borrower's vested amount and terms.</li></ol>								
<b>Other Requirements</b>	<ul style="list-style-type: none"><li>○ Assets must be seasoned for 30 days and any large deposits as determined by the underwriter must be sourced.</li><li>○ Gift Funds.</li><li>○ 100% of gift funds are allowed on owner-occupied transactions.</li><li>○ For second homes and investment properties, the borrower must demonstrate they have a minimum of 10% of their own funds for the down payment. The borrower does not have to actually contribute 10%, only document that they have 10%.</li><li>○ Gifts must be from a family member. Gifts can be used to pay off debt.</li><li>○ Gift funds cannot be counted towards reserves.</li><li>○ Purchase transactions only.</li><li>○ Gifts of Equity are not allowed on investment properties.</li><li>○ Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment.</li></ul>								
<b>Reserves</b>	<p>Reserve Requirements-Subject property PITIA only.</p> <table><tr><th>Loan amount</th><th>Months</th></tr><tr><td>&lt; \$1,000,000</td><td>3 months PITIA</td></tr><tr><td>\$1,000,000 - \$1,500,000</td><td>6 months PITIA</td></tr><tr><td>&gt;\$1,500,001</td><td>9 months PITIA</td></tr></table> <p>First Time Investor – 12 months PITIA R/T Refinances with &lt;=65% LTV No minimum reserves required.</p> <ul style="list-style-type: none"><li>• Reserves are not stacked.</li><li>• For IO loans reserves are based on the IO payment amount.</li><li>• Cash Out proceeds can be used to satisfy reserve requirements.</li></ul>	Loan amount	Months	< \$1,000,000	3 months PITIA	\$1,000,000 - \$1,500,000	6 months PITIA	>\$1,500,001	9 months PITIA
Loan amount	Months								
< \$1,000,000	3 months PITIA								
\$1,000,000 - \$1,500,000	6 months PITIA								
>\$1,500,001	9 months PITIA								
<b>Foreign Assets</b>	Not Allowed								
<b>Interested Party Contributions – IPC/Seller Contributions</b>	<ul style="list-style-type: none"><li>• Primary &amp; 2<sup>nd</sup> homes - LTV &lt;=75% - 9% max. LTV 75.01 to 85% - 6%</li><li>• Investment – 6%</li><li>• All IPC calculations are based on purchase price.</li><li>• Seller concessions include:<ul style="list-style-type: none"><li>○ Financing concessions in excess of the max financing concession limitations; or</li><li>○ Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under \$1,000 should be excluded)</li><li>○ The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.</li></ul></li></ul>								

## Liabilities

<b>All Other Liabilities</b>	All other liabilities topics were not addressed within the guideline, MCFI will follow FNMA Liabilities guideline.
------------------------------	--



Property	
Ineligible Property Types	<ul style="list-style-type: none"><li>• Manufactured housing or Manufactured Homes</li><li>• Working Farms</li><li>• Time-shares</li><li>• Barndominiums</li><li>• Boarding houses</li><li>• Rural properties greater than 20 acres</li><li>• Commercial properties</li><li>• Vacant lots</li><li>• Log Homes</li><li>• Mixed Use</li><li>• Assisted Living</li><li>• Properties Under Construction</li><li>• C5 or C6 property condition grades</li><li>• Unique Properties</li><li>• Work escrows are not allowed.</li><li>• Agricultural properties</li><li>• Geodesic domes</li><li>• Tenancy in Common properties</li><li>• Properties with less than 500 square feet living space</li><li>• Mortgage Loans financing builder inventory</li><li>• Multi Family Dwelling</li><li>• Co-Ops</li><li>• Non-warrantable condo</li><li>• Leaseholds</li><li>• Model Home Leasebacks</li><li>• Padsplits</li><li>• Properties on Tribal Land</li></ul>
Flips	<p>When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a “flip”. To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) are required to be used.</p> <p>Flip transactions are subject to the following requirements:</p> <ul style="list-style-type: none"><li>• All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.</li><li>• No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.</li><li>• The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.</li><li>• No assignments of the contract to another buyer</li><li>• If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.</li><li>• Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at <a href="https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/">https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/</a></li></ul> <p>A second appraisal is required in the following circumstances:</p>



# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>○ Greater than 10% increase in sales price if seller acquired the property in the past 90 days.</li><li>○ Greater than 20% increase in sales price if seller acquired the property in the past 91- 180 days.</li></ul>
<b>Transferred Appraisals</b>	<p>Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed. Appraisal transfers are subject to the following requirements:</p> <ul style="list-style-type: none"><li>• The appraisal report must be less than 60-days old at the time of transfer (less than 120-days at closing) and ordered through an approved Appraisal Management Company.</li><li>• A letter must be obtained from the original lender on company letterhead stating they are transferring the appraisal to MCFI. The letter must transfer the ownership and rights for the specific transaction.</li><li>• The Lender must certify they have complied with Federal, State and FNMA Appraisal Independence requirements.</li><li>• An appraisal delivery form must be provided to the borrower to confirm the borrower's receipt of the appraisal within three (3) business days of the report's completion.</li></ul> <p>If the original Lender will not transfer the appraisal or provide the transfer letter, then a new appraisal is required.</p> <p><b>NOTE:</b> Subject to FIRREA Requirements; if corrections are required, it will be the original lender's responsibility to work with and to obtain them.</p>
<b>Project Review Warrantable</b>	<p>FNMA eligible projects are allowed. Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV. Maximum project exposure shall be \$2,000,000 or 15% of project whichever is lower.</p> <p><b>NOTE: UW Attestation and/or documentation clearly stating whether the property is a warrantable condo must be delivered with the file.</b> <b>If an approved Fannie Mae's Condo Project Manager™ (CPM™) report is provided, a lender HOA questionnaire is not required.</b></p>
<b>Restrictions on a Florida Condo Project</b>	<ul style="list-style-type: none"><li>• Florida condo project MAX LTV/CLTV=75%.</li><li>• FNMA approved projects within the last 18 months only.</li></ul>
<b>Appraisal</b>	<p>A full appraisal involves a complete inspection of the home, including the interior and exterior of the subject property. Acceptable appraisal report forms must follow FNMA and FHLMC standards which include Uniform Appraisal Data Set (UAD) Specifications and the Field Specific Standardization Requirements. Additional requirements:</p> <ul style="list-style-type: none"><li>• Properties must be appraised within the 12 months that precede the date of the mortgage. When the appraisal report is more than 120 days old, the appraiser must perform a recertification of value per FNMA 1004 D or FHLMC Form 442 which includes inspection of the exterior of the property and review of current market data to determine whether the property has declined in values since the date of the original appraisal. Additionally, MCFI reserves the right to require additional appraiser re-valuation reports depending on age of documentation.</li><li>• Uniform Residential Appraisal Report (URAR) with color photos</li><li>• FNMA form 1004 / FHLMC Form 70 for use on one-unit properties including individual units in Planned Unit Development (PUD) projects and Site Condos.</li><li>• Loan amount &lt;= \$2M-One full appraisal and CDA valuation</li><li>• Loan amount &gt;\$2M-Two appraisals</li><li>• Properties in excess of the predominant value of the subject market area are acceptable provided they are supported by similar comparables and also represent the highest and best use of the land as improved.</li></ul>



# MEGA CAPITAL FUNDING, INC.

	<p>Appraisal reviews are required for all loan amounts. Any loan amount over \$2,000,000.00 will require two full appraisals. The lesser of the two is to be used for valuation for the loan file. When two full appraisals are provided an additional valuation report is not required. However, when only one appraisal is provided follow the below to determine if a secondary report is required:</p>
<b>Appraisal Reviews</b>	<p>When the LCA/CU score is greater than 2.5, a Collateral Desktop Analysis (CDA) from Clear Capital Appraisal Management, Appraisal Risk Review (ARR) from Pro Teck, or similar independent vendor is required. If you have either one or both LCA/CU score at 2.5 or less this is acceptable if the reports were both pulled around the same date.</p> <ul style="list-style-type: none"><li>• If a valuation from this company is less than 90% of the appraised value, then the LTV will be calculated using the lower of the CDA or ARR value.</li><li>• If CDA or ARR are not available, then another appraisal report or a filed review is required. If a field review is used in lieu of a CDA or APR, the value must be within 10% of the appraised value.</li><li>• All mortgage transactions located in a federally declared disaster zone, whether it is a purchase or a refinance, require a Disaster Inspection Report confirming no damage to the subject and no adverse impact to marketability. The practice of obtaining a Disaster Inspection Report should continue for a minimum of 90 days from the date of the disaster and display a completion date that doesn't exceed 15 days prior to the loan closing.</li><li>• On all Purchase Money Transactions, closing instructions should indicate that no credits for property condition are allowed and there should be no seller concessions due to damage to the property that was caused by the declared federal disaster.</li><li>• In all cases where a second appraisal is required, an acceptable CU/LCA Score, or desk review is not required.</li></ul>
<b>E-Signatures</b>	<ul style="list-style-type: none"><li>• E-signatures are permitted except for the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, Riders/Addendums, and any state regulated disclosures. These documents require a wet signature.</li></ul>
<b>Hazard Insurance Requirements/Condo (HO6)</b>	<p>Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. MCFI requires hazard insurance protection on all loans with an effective date on or before closing. A declaration page is required prior to closing for all loans as proof of insurance. On all refinance transactions, if the coverage termination date is within 30 days of the closing, MCFI will require evidence of continuing coverage. A loss payable endorsement is required for all loan transactions.</p> <p>The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum:</p> <ul style="list-style-type: none"><li>• Wind</li><li>• Civil commotion (including riots)</li><li>• Smoke</li><li>• Hail</li><li>• Damages caused by aircraft vehicle or explosions</li></ul> <p>Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable.</p> <p>Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless that have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.</p> <p>The HOI Policy must be effective for at least 60 days after the date of funding. Evidence of Insurance can be provided in one of the following forms:</p>



- Policy
- Certificate of Insurance
- Insurance Binder

#### Evidence of Insurance Requirements:

- Names of the borrowers to reflect same name as on the Note/Security Instrument
- Property address matches the Note/Security Instrument
- For primary residence loans, Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance agent information
- Effective and expiration dates of coverage. For purchase loans, effective date must be on or before funding/disbursement date
- Premium amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by the agent

#### Deductibles:

- Family Residences – The maximum allowable deductible, to include any separate wind-loss or other separate deductible that apply to a specific property element, is 5% of the face amount of the policy
- Condos and PUDs - The maximum deductible amount for policies covering the common elements must be no greater the 5% of the face amount of the policy.
- For losses related to an individual unit in PUD that is covered by a blanket policy; the maximum deductible is no greater than 5% of the replacement cost.
  - If there is a wind-loss deductible, then the deductible must be no greater than 5% of the face amount of the policy.
- For Condos with blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

#### Determining the amount of required Hazard Coverage:

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 explosions.

Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless they have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

#### Hazard Insurance coverage should be in the amount of the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer or reputable 3rd party source (i.e., CoreLogic);



# MEGA CAPITAL FUNDING, INC.

	<ul style="list-style-type: none"><li>• Estimated cost to replace as notated on appraisal delivered with loan file (Total Estimate of Cost-New) OR RCE from insurance provider/agent;</li><li>• The unpaid principal balance of the mortgage</li></ul> <p>If none of the above are met, then coverage that does provide the minimum required amount must be obtained.</p> <p><b>Flood Insurance:</b> Flood insurance coverage is required when a loan is secured by a property located in a Special Flood Hazard Area (SFHA), or a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). MCFI follows Fannie Mae Guidelines in regards to Flood Insurance Coverage Requirements.</p> <p>MCFI must determine whether the property is located in an SFHA, a CBRS, or an OPA by using the FEMA Standard Flood Hazard Determination form. All flood zones beginning with the letter "A" or "V" are considered SFHAs.</p> <p><b>Note:</b> If the subject property is located within a CBRS or an OPA, flood insurance is required regardless of whether the property is located in an SFHA.</p> <p>The minimum amount of flood insurance required must be equal to the lesser of:</p> <ul style="list-style-type: none"><li>• 100% of the replacement cost value of the improvements,</li><li>• the maximum coverage amount available from NFIP, or</li><li>• the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).</li></ul>
<b>Escrow Holdbacks</b>	<ul style="list-style-type: none"><li>• Escrow Holdbacks are not allowed.</li></ul>