MEGA CAPITAL FUNDING, INC.

M HELOC+ (Simultaneous close & Standalone Close)

Occupancy	Credit Score	CLTV/HCLTV
Principal Residence	680	90%
	660	80%
	640	70%
Second Home	740	80%
	680	70%
Investment	740	80%
	680	70%

Program Codes	Doc Type	Lien Type	Code	Term	Amortization
	Full Doc	Piggyback	MHELOC+P	30yr	Interest Only
		Standalone	MHELOC+S	30yr	Interest Only

HELOC PROGRAM AND REQUIREMENT	

Product Terms	• 30 Year HELOC with 3 Year Draw Period Terms:
	  ○ 30-year variable term (Index plus a margin)
	  ○ 3-year draw period and 10-year interest only payment period with a 20-year fully amortizing repayment period

Loan or Line Amounts	• Minimum - $75,000 • Maximum - $500,000
HELOC Initial Draw	• Requires 100% full draw of the total line amount
HELOC Additional Draws	• Prohibited during the first 90 days following closing date • Minimum- $1,000 ○ Not to exceed the credit limit
Eligible Transaction Types	• Refinance transactions • Purchase money transactions • Simultaneous closings (Piggyback)
Debt to Income	• Max 45% DTI • Max 50% DTI with Minimum 700 FICO Score and $3,500 of Monthly Residual Income. Max 45% DTI otherwise. ○ Monthly Residual Income = Total Monthly Income – Total Monthly Mortgage and Non-Mortgage Obligations listed in the Underwriting Guidelines.
Maximum Total Financing	• Single Borrower - $500,000 in aggregate (principal balance of MCFI originated loans) ○ Aggregate is defined as the sum of all outstanding closed end loans and the loan or maximum line amount • Owner-Occupied - Limited to $3,000,000 (total amount of 1st and 2nd lien combined)

<table>
<tr><td></td><td>Second Homes - Limited to $2,000,000 (total amount of 1st and 2nd lien combined)
Investment Properties - Limited to $2,000,000 (total amount of 1st and 2nd lien combined)
Limited to 10 Financed Properties.</td></tr>
<tr><td>Non-Arm’s Length Transaction</td><td>A non-arm's length transaction, also known as an arm-in-arm transaction, refers to a business deal in which buyers and sellers have an identity of interest; in short, buyers and sellers have an existing relationship, whether business-related or personal.
MCFI does not allow a non-arm's length transaction. The only exception is if a tenant is buying the property that they are currently renting from the landlord/owner of the property. All other non-arm's length transactions are ineligible for financing.</td></tr>
<tr><td>Multiple Properties Financed/Owned</td><td>Each Borrower is limited to no more than 10 Financed properties. All financed properties count in total, even when the mortgage is not with MCFI

Property Ownership Defined
Partial or joint ownership is considered the same as total ownership in the property
Ownership applies to financed properties owned by the Borrower, including any properties the Borrower owns outside of the United States
A Borrower who is obligated on a mortgage, regardless of whether they hold title to the mortgaged property is included in this limitation
These limitations apply to the total number of all financed properties, not to the number of mortgages on the property
Property subject to limitations<table>
<tr><td>Type of Property Ownership</td><td>Subject to Limitations</td></tr>
<tr><td>Joint ownership of residential real estate (considered to be the same as total ownership of an individual property)</td><td>Yes</td></tr>
<tr><td>Ownership in commercial real estate</td><td>No</td></tr>
<tr><td>Ownership of a multi-family property consisting of more than four dwelling units</td><td>No</td></tr>
<tr><td>Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation</td><td>No</td></tr>
<tr><td>Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if Borrower is the owner of the corporation; however, the financing is in the name of the Borrower</td><td>Yes</td></tr>
<tr><td>Ownership in a timeshare</td><td>No</td></tr>
<tr><td>Obligation on a mortgage debt for a residential property (regardless of whether or not the Borrower is an owner of the property)</td><td>Yes</td></tr>
<tr><td>Ownership of a vacant (residential) lot</td><td>No</td></tr>
<tr><td>Joint or total ownership of a property that is held in the name of an LLC or partnership (Limited or General Partnership or Trust)</td><td>Yes</td></tr>
<tr><td>Ownership of a manufactured home and the land on which it is situated that is titled as real property</td><td>Yes</td></tr>
<tr><td>Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home)</td><td>No</td></tr>
</table></td></tr>
<tr><td>Eligible Ownership Interests</td><td>Fee Simple</td></tr>
<tr><td>Ineligible Ownership Interests</td><td>Life Estates and/or Lady Bird Deeds
Leasehold Estate
Properties Titled in an Irrevocable Trust
Properties Titled in a Land Trust
Land Contracts</td></tr>
<tr><td>Value Seasoning</td><td>0-6 Months – Must use the lower of the value from the earliest date when the current title holder(s) obtained title OR the appraised value.
>6 Months – Must use the appraised value.</td></tr>
</table>

Ownership Seasoning	• Owner Occupied and 2nd Home- None • Investment Properties- 6 months ownership is required prior to the application date. • Inherited Properties- 6 months ownership is required prior to the application date.
Eligible Property Types	• Single Family • PUDs • Modular homes (as defined by Fannie Mae) • Warrantable Condominiums • 1-4 unit primary residence properties in which the borrower occupies one of the units
Ineligible Property Types	• Cooperatives • Condotels • New Construction Condominium Projects • Hotel/Motel Condominiums • Mobile Homes • Manufactured Housing • Commercial Operations • Geodesic & Monolithic Domes • Working farms and ranches • Unimproved Land • Properties with >20 Acres • Timeshares • Leasehold • Properties listed for sale in the past 120 days (determined by the earliest of the withdrawn, cancelled, or expiration date) • Mixed Use • Properties with solar power as the only source of electricity • Vacant Properties (purchase transactions excluded) • Barndominiums • Second Homes greater than 1 unit • Properties with unpermitted additions and/or improvements • Boarding Homes (Investment properties with individual room rentals) • Properties with more than 1 Accessory Dwelling Unit (ADU) • Properties located on tribal lands • 2-4 unit investment properties
Condominiums	• Established projects only • Online search for no condotel or short-term rental • If Master Condominium insurance policy does not contain walls-in coverage, an H06 policy is required • An H03 policy is acceptable for properties identified as a detached condo
Piggyback Additional requirements	• Final Approval from first lien lender showing all conditions met. • Final Closing Disclosure from first lien to confirm final CLTV or HCLTV and the DTI calculation. • Title policy from first lien transaction should use a supplemental title policy to the first lien transaction that must include title insurance, CPL, and Wire Instructions. • Use of a first lien appraisal is acceptable. Review the Appraisal Requirements section for additional information. • Agreement of sale on purchase transactions • Piggyback refinance or purchase transactions are not permitted in Texas. • The piggyback 2nd lien must be closed simultaneously with MCFI 1st lien.

Ineligible Senior Lien	• Senior liens with high-risk features which can include, but are not limited to:
	  ○ Tax and judgement liens
	  ○ Loans in active forbearance or deferment

	○ Negative amortization mortgages (this does not include language in the mortgage note warning Borrower's that the lack of payment may result in negative equity and negative amortization is not a feature of the product) ○ Balloon mortgages, (balloon terms resulting from a loan modification are acceptable subject to the terms in modification requirement. The MCFI mortgage term cannot exceed the balloon payment due date) ○ Partial claim as a result of a loan modification ○ Reverse Mortgages ○ Construction loans (this does not include construction loans that have been modified to permanent financing as evidenced by all pages of the fully executed loan documents detailing the terms of the permanent financing and the most recent mortgage statement showing fully amortizing loan terms) ○ Private Mortgages opened within the past 12 months ○ Texas 50(a)(6) ○ HELOC in the draw period
Age of Documents	• Expiration Dates are based on the Note Date of the Loan: ○ Credit Report - 60 Days ○ Income Documents – 60 Days ○ Asset Documents – 60 Days ○ Collateral - 90 days ○ Title - 90 Days ○ Appraisal – 90 Days ▪ A 1004D is required to recertify the value of a full interior appraisal that is older than 90 days
Property Taxes	When the title documents show taxes due within 60 calendar days of closing, one of the following is required: • First mortgage lien statement or equivalent escrow documentation verifying the property taxes are escrowed • Proof the property taxes due are paid in full • Confirm the outstanding property tax balance is to be paid with loan proceeds When the title documents show delinquent or past due property taxes, one of the following is required: • Proof the delinquent amount plus any penalties and/or fees are paid in full • Confirm the delinquent amount plus any penalties and/or fees are to be paid with loan proceeds
Properties Titled in a Trust	When using a fully executed trust agreement, it must clearly identify all of the following: • The trust was established by a natural person(s) during the lifetime of the individual establishing the trust, to be effective during the natural person's lifetime • The primary Beneficiary(ies) of the trust must be the individual(s) who established the trust*. The individual establishing the trust is often referred to as either Grantor(s) or Settlor(s) • Income or assets of at least one of the individual(s) establishing the trust are used to qualify for the mortgage loan (For loans with multiple trusts, income, or assets from at least one individual from at least one trust must be used) • The trust appoints trustees to hold legal title to, and manage the property that has been placed in the trust • The Trustee(s) must include either of: (a) at least one of the individual(s) who established the trust (most common)***; or (b) an institutional trustee that customarily performs trust functions and is authorized to act as trustee under the laws of the relevant state (not as common)

	• The powers of the Trustee(s) must expressly include the powers to borrow money and to pledge/mortgage/encumber trust property as security
	    o NOTE: A trust agreement's reference to trustee powers granted by state law or regulation is permitted. The trustee agreement must include a clear reference to the statute or regulation in question, and the statute or regulation must be reviewed to confirm that the required powers are expressly granted to trustees
	• The individual(s) who established the trust must have the right to revoke or alter the trust at any time and for any reason during their lifetime. This is known as an "inter vivos revocable trust"
	• The trust agreement must be fully executed (signature page is required)
	• Any title insurance commitment must not list any exceptions arising from trust ownership of the property
	* If a Grantor/Trustee is deceased or otherwise unable to serve as trustee as provided by the terms of the trust, and a successor Trustee has been appointed in accordance with the terms of the trust, the successor Trustee is permitted to be a Borrower on the loan so long as the successor Trustee is also the beneficiary.
	Evidence that the original Grantor/Trustee is no longer servicing as trustee, such as a death certificate, must be obtained.
	
	When using a fully executed certification of trust, all of the following applies:
	• Must identify:
	    o Name of trust
	    o Date of creation
	    o Governing law (can also be known as state specific code)
	    o Identities of persons creating the trust and servicing as trustee(s)
	    o Powers of trustees to borrow money and to pledge/mortgage/encumber the trust property as security
	    o If there are multiple trustees, how many trustees are required to exercise the trustee powers
	    o Revocable nature of the trust
	• All Trustees must execute certification; certification signature page required
	• Attorney-prepared trust certifications are permitted
	NOTE: Neither a non-borrowing title holder nor a non-borrowing spouse is considered a Borrower, but each may be entitled to certain disclosures and required to sign certain closing documents. A non-borrowing title holder is a non-borrower who holds title to the property. A non-borrowing spouse is the Borrower's spouse and may or may not be on title. Non-borrowing title holders and non-borrowing spouses are not required to sign the promissory note or home equity line of credit agreement and disclosure statement; however, each is required to sign the security instrument and other truth in lending disclosures. Exceptions may apply with regard to non-borrowing spouses who are not on title, as permitted under state law and authorized by the compliance department.
	Review the matrices for all ineligible borrowers

Title Insurance	• Loan or Maximum Line amounts less than or equal to $250,000: Owner and Encumbrance Property Report. • Loan or Maximum Line amounts greater than $250,000: Full Title is required. • For piggyback transactions: o Title insurance, Wire Instructions, and CPL are required for MCFI proposed loan.
Title Restrictions	• Properties titled in Irrevocable Trusts are not permitted • Properties titled in Land Trusts are not permitted • Vesting in the name of an LLC (at closing) is not permitted. Review the Borrower Types guideline for additional information

	• Power of Attorney is limited to Piggyback Purchases only and must follow GSE Requirements • PACE and/or HERO loans shown on the title report must be paid in full • Judgments, liens and/or involuntary encumbrances must be addressed and cannot appear on the final title policy.

Homeowners Insurance	• Loan or Maximum Line amounts less than $250,000-
	    ○ Use of existing coverage amount is permitted. Replacement cost estimator or increases in coverage are not required regardless of outstanding lien amounts
	• Loan or Maximum Line amounts greater than or equal to $250,000-
	    ○ Existing coverage amount must be equal to the lesser of the following:
	        ▪ 100% of the insurable value of the improvements, as established by the property insurer; OR
	        ▪ The unpaid principal balance of all existing liens against the subject property, plus the new Loan or Maximum Line amount
	• Homeowners Insurance policies are good through disbursement

Borrower Types	A Borrower must be an individual. Title must be vested in the Borrower's name or in the name of a trust (Properties Titled in a Trust) at time of closing for all transactions. At least one borrower must be on title at application. Income from a co-borrower added after application can be used if there is proof they have resided in the property for 6 months (proof includes but is not limited to utility bills, W2's, government issued photo I.D., a bank statement, other financial statement and/or vehicle registration). Non-income contributing Borrowers are not required to be vested on title at time of application and can be added to title at closing. For loans secured by subject properties in Texas, non-married vested persons who occupy the property must be added as a co-borrower. When title is held in the name of a limited liability company (LLC), the transaction may be eligible provided the Borrower is either the sole member and 100% owner of the LLC, or all borrowers collectively own 100% of the LLC and title is transferred to the Borrower's or all Borrower's names at closing.

Eligible Borrower	• U.S. Citizen
	The Borrower must be a citizen of the United States or of a U.S. Possession or Territory.
	• Non-U.S. Citizen
	    ○ Permanent Resident
	    A permanent resident is a Non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card (form I-551).
	    Document legal residency with one of the following:
	        ▪ A valid and current Permanent Resident card (form I-551); OR
	        ▪ A passport stamped "processed for I-551," "temporary evidence of lawful admission for permanent residence," "valid until ________," and "employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card (form I-551). See http://www.uscis.gov/ for more information.
	
	    ○ Non-Permanent Resident
	    A non-permanent resident is a Non-U.S. citizen who lawfully enters the United States for specific time periods under the terms of a visa. A non-permanent resident status may or may not permit employment. Non-Permanent Residents are eligible under the same terms as US citizens.
	    Verification that the Borrower has one of the following is required:
	        ▪ Unexpired Employment Authorization Document (EAD -Form I-766) issued by the United States Citizenship and Immigration Services (USCIS); OR

	▪ One of the following visas: H series, L, E-1, or TN visa. For further information see http://www.uscis.gov/ **NOTE**: DACA award recipients are acceptable with an unexpired Employment Authorization Document (EAD- category C-33) **NOTE**: A copy of the front and back of any documentation provided to prove current residency may be required to confirm the expiration date. Unacceptable Visa Types are those where the intended purpose of the USCIS is not to reside in the US. unacceptable visa types include, but are not limited to: • F series (academic student) • M series (Vocational student) • J series (Exchange visitor) • B-1 (temporary visitor) Visit http://www.uscis.gov/ for more information. On a case-by case basis, alternative documentation approved by the U.S. Citizenship & Immigration Service (USCIS) may be acceptable. o Expired Residency Documentation Residency documentation must be unexpired as of the note date of the loan. If the residency documentation has expired prior to the note date, we will accept one of the following: ▪ Permanent Resident card- Expired permanent resident card and an unexpired I-797A form ▪ Non-Permanent Resident EAD or acceptable visa type- Copy of the expired EAD or acceptable visa and an unexpired I-797A form.
Ineligible Borrowers	• Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts • Individuals classified under diplomatic immunity, temporary protected status, deferred enforced departure or humanitarian parole • Foreign nationals that do not meet the requirements in the non-permanent resident guideline • Non-Occupant Co-Borrowers • Guarantors or Co-Signers • Borrowers party to a lawsuit in which they have any personal financial liability • Rent free borrowers- Review the Housing Payment History section for additional information
Assumptions/Prepayment Penalty/Escows	• Not allowed/Not permitted/Not required. • No State High Cost
Lien Positions & States	• 2nd Liens o MCFI must be in 2nd lien position at the time of closing o Available in all states except: HI, ND, NV, SD, TN, TX, WV • 3rd liens or any subordinate liens are not permitted
Disaster Policy	• Please refer to the list of affected counties published by FEMA using the following link: http://www.fema.gov/disasters • MCFI will require a property inspection for any loan secured by a property in the affected area where individual assistance was provided • If the subject property is located in one of the impacted counties and the collateral valuation was completed prior to the incident period end date, MCFI will require one of the following: o Collateral valuation after the disaster incident period end date OR o Post disaster inspection confirming the property was not adversely affected by the disaster
Additional HELOC Terms	• Index- Prime Rate as published in the WSJ on the 1st of the month, if there is a range published the highest rate will be used • Lifetime Rate Cap = 18.00% unless prohibited by law • Floor Rate = 4.00%

	• Qualifying payment- 30 year, fully amortized based on start rate + 2% on the maximum line amount
HELOC Annual Maintenance Fee	The fee is charged automatically, on an annual basis, as an advance against the line. An annual maintenance fee of the lesser of the amount listed below or the maximum amount that may be charged in accordance with laws of the state of the subject property securing the lien: • There is no annual maintenance fee in Maryland, Virginia, Texas, Minnesota (if the line amount is less than $100,000) and North Carolina (if the line amount is less than $300,000) • $50.00 in Missouri, New Jersey, Pennsylvania, and Washington • $99.00 in all other states not listed above, including Minnesota (line amounts greater than or equal to $100,000) and North Carolina (line amounts greater than or equal to $300,000)

CREDIT	
Credit Report Requirements	• The credit report used to evaluate a mortgage loan cannot have frozen credit. If a Borrower unfreezes their credit after the date that the original credit report was ordered, a new credit report must be obtained to reflect current updated information from all applicable repositories. Nontraditional credit is not acceptable as a replacement for frozen credit. • All credit reports must include FACT Act messages and at least one repository fraud alert product (Hawk Alert, FACS+ or SafeScan). • When the credit report shows a victim statement under the FACT Act, the originator must document in writing the steps taken to validate the mortgage loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws. • Non-Traditional / Foreign credit report are not acceptable.
Selection and Validation of Credit Score	• Three repository credit scores are required. • When the credit score used to qualify is based on two repository scores – The lowest of all borrowers' scores must be used. • When the credit score used to qualify is based on three repository scores- The lowest middle score of all borrowers' must be used. • A credit score must be available.
Loan Qualification Score	• Use the lowest selected credit score among all Borrower's. All Borrower's must meet the minimum credit score and all other credit evaluation requirements.
Tradeline Requirements	The credit report(s) utilized, whether joint or individual, must show ONE of the following: • Minimum of three tradelines regardless of timeline with at least one of the tradelines being open with a date of the last activity within 6 months from the current date and reporting for at least the past 12 months OR • A current mortgage paid as agreed for past 36 months Authorized user accounts may not be used to satisfy the trade line requirements. Active trade lines are defined by the date of the last activity on the account within 6 months from the current date. Non-traditional credit is not permitted.
Authorized User Accounts	When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. Authorized user accounts can be omitted from the monthly debt calculation.
Inquiries and Undisclosed Liabilities	When the credit report indicates recent inquiries within the last 90 calendar days, confirm that the Borrower has not applied for and/or been approved for or obtained any additional credit that is not reflected in the credit report or in the mortgage loan application.
Housing Payment History (ALL REO)	• Owner Occupied - Max 1x30x24 inclusive of all mortgages when the borrower is obligated on the mortgage/note on all REO for all borrowers on

	the transaction (No late payments in the last 6 months with one allowable 30-day late payment in the past 7 to 24 months)
	• 2nd Home and Investment properties - Max 0x30x24 inclusive of all mortgages for all borrowers on the transaction when the borrower is obligated on the mortgage/note (No late payments in the last 24 months)
	• Any mortgage lien on the subject property where the borrower is not a note holder (e.g. mortgage held by another party) or is not reporting on credit requires payment history to verify no late or missed payments in the most recent 12-month period.
	• Purchase transactions- 12 months rental history verification is required
	• Rent-free borrowers are eligible for purchase transactions if:
	  o The borrower has not lived rent free for more than 6 months AND
	  o The borrower provides 12-months housing history prior to becoming rent free AND
	  o The borrower qualifies with the housing payment for the property being purchased.
	• If the verification of rent is from a private party, cancelled checks and/or bank statements are required.
	• Cancelled checks and/or bank statements are required for all private mortgages
	• The first mortgage loan cannot be in any active deferment or forbearance period. Once the deferment or forbearance period has expired, a minimum of three-monthly payments at the current payment must be documented.

Significant Derogatory Credit	• Measured from the Disbursement Date.
	• Period of time that must elapse prior to loan eligibility is as follows:
	  o Foreclosure - 7 years
	  o Charge-Off of a Mortgage Account, Deed-in Lieu, Pre-foreclosure Sale, Short Sale, Restructured, or Short Payoff of a mortgage secured by a property - 4 Years
	  o Chapter 7 or 11 Bankruptcy - 4 years from discharge or dismissal
	  o Chapter 13 Bankruptcy- 2 years from discharge or 4 years from dismissal
	Multiple events within the past 7 years are not permitted.

Major Adverse Credit	• Major adverse credit is identified as collection accounts, charge-off accounts, judgments, liens, delinquent property taxes, repossessions, garnishments, and non-mortgage accounts currently 90 calendar days or more delinquent. • Collection accounts and/or charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than $250 or the total balance of all accounts is $1,000 or less. Medical accounts do not need to be paid off at or prior to closing if less than $5,000. These accounts may be left open provided they do not affect the title. • All past due State and IRS taxes in addition to property tax liens (for the Mortgaged Property and other properties), regardless of seasoning, are required to be paid in full whether or not they currently affect the title. Past due State and IRS taxes are defined as unpaid taxes due on the current or previous year's tax deadline which is generally on or around April 15th. No payment plans or subordination are allowed.
Modification / Deferment or Forbearance	Any current senior lien that has been modified from the original terms requires all pages of the fully executed modification agreement. Balloon terms resulting from a loan modification are acceptable subject to the terms in the modification requirement. The MCFI mortgage term cannot exceed the balloon payment due date. If modification documents indicate a partial claim, review the ineligible senior lien types above.

	The first mortgage loan cannot be in any active deferment or forbearance period. Once the deferment or forbearance period has expired, a minimum of 3 monthly payments at the current payment must be documented.
	• A copy of the deferment or forbearance agreement AND
	• Verification of 3 timely payments using one of the following:
	    ○ A loan payment history from the servicer or third-party verification service OR
	    ○ A verification of mortgage OR
	    ○ Cancelled checks OR
	    ○ All pages of the 3 months most recent bank statements OR
	Account/Transaction summary for the most recent 3 months with verification the bank account is owned by the Borrower

LIABILITIES	

Subject Real Estate First Mortgage	• ARM
	When the subject property first mortgage is an adjustable-rate mortgage (ARM) that adjusts within the next 5 years, the current rate plus the initial rate adjustment cap must be used to calculate the payment that is to be included in the housing expense. When calculating the ARM adjustment, the remaining principal balance must be used.
	• Interest Only
	When the subject property first mortgage has an interest only feature, the fully amortizing payment must be included in the housing expense. The remaining term following the interest only period MUST be used to calculate the fully amortizing payment on ALL interest only first mortgages (ex. 30-year term with a 5-year interest only feature- use the 25-year term in the fully amortizing payment calculation). Review the various calculation methods corresponding to the different types of interest only first mortgages outlined below.
	    ○ Interest only fixed rate first mortgage- The remaining principal balance at the existing rate must be used to calculate the payment to be included in the housing expense
	    ○ Interest only first mortgage with an adjustable-rate that adjusts within the next 5 years- The remaining principal balance and the current rate plus the initial rate adjustment cap must be used to calculate the payment to be included in the housing expense

Alimony, Child Support and Maintenance Payments	When the Borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for more than 10 months, the payments must be considered in the debt-to-income ratio (and may not be deducted from income). Voluntary payments do not need to be taken into consideration. One of the following is required to document the payment and the number of remaining payments: • A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it was received, OR • Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made
Bridge Loans	A bridge loan is a form of mortgage secured by the Borrower's present home, which is for sale. By using funds from this loan, the Borrower can close on a new home before selling the present home. Bridge loans must be included in the Borrower's debt-to-income ratio.
Business Debt in Borrower's Name	When a self-employed Borrower indicates that certain liabilities are paid by their business, it must be confirmed that the obligation was paid from company funds and meets all of the following requirements:

	• There is no history of delinquency on the account within the most recent 12 months, AND • Submission of all pages of the business bank statements and/or cancelled checks to prove that the business has made the account payments for the most recent 12 months The business debt must be included in the Borrower's individual recurring monthly debt obligations if any of the following situations exist: • The business does not provide sufficient evidence that the obligation was paid out of company funds • The business provides acceptable evidence of its payment of the obligation, but the cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense - and taxes and insurance, if applicable - equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan) • The obligation has not been accounted for in the cash flow analysis • The account has a history of delinquency in the most recent 12 months If the Business Debt is included in the Borrower's monthly debt obligations, the business expenses and income should be appropriately adjusted to ensure that the obligation is only counted once.
Co-Signed Loans	When a Borrower co-signs for a loan to enable another party (the primary obligor, also known as a debtor) to obtain credit and is not actually repaying the debt, the Borrower has a contingent liability. Non-mortgage debt contingent liabilities must be included in the debt-to-income ratio, unless: • The account has been open for a minimum of 12 months AND • There is documentation to evidence that the obligor/debtor has been making the account payments for the most recent 12 consecutive months AND • The account has not been delinquent within the most recent 12 months Mortgage debt contingent liabilities must be included in the debt-to-income ratio, unless: • The account has been open for a minimum of 12 months AND • There is documentation to evidence that the obligor/debtor is obligated on the liability AND • There is documentation to evidence that the obligor/debtor has been making the account payments for the most recent 12 consecutive months AND • The account has not been delinquent within the most recent 12 months NOTE: Rental income from a property where the contingent liability is excluded cannot be used for qualification
Court-Ordered Assignment of Debt	When the Borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the Borrower from liability, it may still be excluded from the debt-to-income ratio with a copy of the court order assigning the debt. The payment history of the assigned debt does not need to be taken into consideration after all terms of the assignment have been completed.
HELOC	When any real estate owned has a home equity line of credit, that has a balance, a monthly payment, must be considered part of the Borrower's recurring monthly debt obligations. Proof of the monthly obligation must be documented. If an open HELOC on any real estate owned has a zero balance and no monthly payment reporting on the credit report, no payment needs to be included in the recurring monthly obligations.

Installment Debt	Installment debt that is not secured by a financial asset, including student loans, automobile loans and timeshares with more than 10-months remaining must be included in the Borrower's monthly debt obligations. Installment Debt that is deferred or in forbearance must always be included in the Borrower's monthly debt obligations. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the Borrower's payment or forbearance letters must be obtained to determine the monthly payment used for loan qualification.
Lease Payments	Lease payments must always be included in the Borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease or even if the lease is being paid off with loan proceeds.
Loans Secured by Financial Assets	The Borrower may use their financial assets (life insurance policies, 401k accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan. The payment on this type of loan is not required to be included in the debt-to-income ratio provided the applicable loan instrument shows the Borrower's financial asset as collateral for the loan
Mortgage Assumptions	When the Borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of the liability, the Borrower has a contingent liability. The contingent liability (PITIA) does not need to be included in the debt-to-income ratio if verification that property purchaser has at least a 12-month history of making regular and timely payments for the mortgage has been documented. The following is required: • Evidence of transfer of ownership • Copy of the formal and fully executed assumption agreement • Credit report indicating consistent and timely payments were made for the assumed mortgage with no delinquency noted If timely payments for the most recent 12-month period cannot be documented, the mortgage payment must be included in the Borrower's recurring monthly debt obligations.
Open 30-Day Charge Accounts	Open 30-day charge accounts (i.e., AMEX) with account balances are required to be paid off unless one of the following is documented: • The balance is less than one month of the 1st mortgage and proposed MCFI mortgage PITIA payments; OR • Use 5% of the balance shown on the credit report OR • Borrower has sufficient assets to cover the unpaid balance OR • Borrower qualifies with the total unpaid balance as a monthly obligation OR • The most recent statement shows there is a pay over time option If the open 30-day charge account has a portion of the balance that is paid over time, the following is required: • The most recent statement showing all balances and amounts due • Proof of sufficient assets to cover the New Balance amount (shown in the Pay In Full Portion section of the statement) • Include the Minimum Due amount (shown in the Pay Over Time Portion section of the statement) in the debt calculation
Property Settlement Buy-Out	When the Borrower's interest in a property is bought-out by another co-owner of the property, the mortgage lender may not release the Borrower from liability under the mortgage, thus creating a contingent liability for the Borrower. This contingent liability does not need to be included in the debt-to-income ratio provided there is documentation to evidence the transfer of title of the property.
Revolving Charge/Lines of Credit	Revolving charge accounts and unsecured lines of credit are open-ended, should be treated as long-term debts, and must be considered part of the Borrower's recurring monthly debt obligations. These tradelines include credit cards, department store charge cards, and personal lines of credit.

	If the credit report does not show a required minimum payment amount, use 5% of the outstanding balance as the recurring monthly debt obligation unless there is supplemental documentation to support a payment of less than 5%.

Student Loans	For all student loans, when a monthly student loan payment is provided on the credit report, it is acceptable to use that amount (other than $0) for qualifying purposes. When the credit report does not reflect the correct monthly payment, use the monthly payment that shows on the student loan documentation (most recent student loan statement) to qualify the borrower.
	
	When the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, determine the qualifying monthly payment using one of the following options:
	• Income-driven payment plans- Obtain student loan documentation to verify the Borrowers actual monthly payment is $0. Once verified, the Borrower can be qualified with the $0 payment
	• Deferred loans or loans in forbearance- Calculate one of the following:
	    ○ A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), OR
	    ○ A fully amortizing payment using the documented loan repayment terms
	
	Note: Estimated payments cannot be used for qualifying purposes.

UCC Filings/Solar Panels	When a UCC filing is identified on title (i.e., solar panels), verification of the monthly obligation is required to be included in the Borrower's debt calculation. To determine the UCC monthly obligation, one of the following is required: • Copy of the user agreement OR • Copy of the account statement verifying the monthly debt obligation, OR • Verification of the monthly debt obligation is present on the credit report and the creditor can be linked to the reference on title When the monthly obligation increases over time, the highest payment amount within the next 3 years must be used. Title must be reviewed for the presence of UCC filings that could impede the first lien position of the subject property mortgage. When solar panels are noted in the appraisal but do not show as a UCC filing on title, no additional documentation or verification of the monthly obligation is required. If a UCC filing is tied to a PACE or HERO loan, the loan must be paid in full. Properties with solar power as the only source of electricity are ineligible.
Voluntary Recurring Obligations/Paystub Deductions	Voluntary recurring obligations identified on a Borrower's paystub as a deduction do not need to be considered in the underwriting analysis or subtracted from gross income (401k contributions, 401k loans, union dues, commuting expenses, federal, state, and local taxes, or other voluntary paystub deductions). Any other paystub deduction must be considered in the debt calculation. Review the Employment and Income Analysis and Documentation chapter for treatment of business expenses.
Debt Pay Off/Pay Down	Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The Borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Payoff of revolving or installment debt for loan qualification is permitted. NOTE: If installment debt is a lease, the monthly obligation must be included in the DTI calculation even when paying off the installment debt balance with loan proceeds Pay down of installment debt to meet DTI and/or CLTV requirements is not permitted

Employment and Income Analysis and Documentation	
Stability and Continuance of Employment and Income	Income may not be used if it comes from any source that cannot be verified, is not stable, and/or will not continue. When analyzing a Borrower's employment record, the following must be examined: • The Borrower's past employment record AND • Previous training and education To use a source of income to qualify for a mortgage loan, the income must be proven, stable and continuous (i.e., must reasonably continue into the future). A minimum of 2 years employment history and continuance of income for 3 years is generally required for all Borrower's whose income is being used to qualify. Unless there is evidence that the income will no longer be received, conclude that the income will continue for 3 years. If a Borrower's employment history includes unemployment, the application must reflect at least 2 years of employment, therefore covering a longer period of time. If the Borrower has less than a two-year history of receiving income, a written justification to determine that the income being used for qualification is stable must be provided. Consider both the length of the Borrower's employment with any one employer and the stable and reliable flow of income. When evaluating a Borrower who has frequent job changes or unemployment, focus on whether the changes have affected the Borrower's ability to repay their obligations. If the Borrower provides documentation of a consistent level and type of income and the ability to pay their obligations despite changes in the source of that income, it can be presumed that the Borrower's income level is stable. Known economic conditions, such as plant closings or company bankruptcies that may affect the Borrower's income must be taken into consideration. Any decreases or significant increases could affect the stability of the Borrower's income and would require further analysis and a satisfactory justification from the underwriter. A significant increase is defined as 100% or more increase in the income from the previous year. If a satisfactory justification cannot be provided, the income will be considered questionable and should not be used to qualify the Borrower. Borrowers who change jobs for advancement and maintain a stable earning capacity and good credit history, as well as Borrower's with demonstrated job stability, will be eligible. Education or training to enhance job opportunities and income will receive favorable consideration. If a Borrower does not meet the employment history requirement for the 2 full years prior to the date of the Mortgage Loan Application, and was previously in school or the military, obtain copies of the Borrower's diploma/transcripts or discharge papers.
Employment Gap	The stability of employment and income and its likelihood of continuance along with the Borrower's ability to maintain satisfactory credit ratings should all be factored into the underwriting decision when there are gaps of employment. Borrower who is re-entering the work force after an extended absence (6 months or more) may be considered to have stable employment if all the following is met: • The Borrower has been employed in their current job for 6 months or more AND • A two-year work history prior to the absence from the workforce is documented

Tax Transcripts	Tax transcripts are only required for the following scenarios:
	• Self-Employed
	    ○ Greater than or equal to 5 years- Most recent year
	    ○ Less than 5 years- Most recent 2 years
	• Employed by a Family Member- Most recent 2 years
	• W-2s- Most recent 2 years
	• Underwriter discretion (where there are inconsistencies on the documents provided and if the income needs to be verified)

Verification of Employment	A verbal verification to confirm all Borrower's current employment status within 10 business days from the mortgage note date (or funding date for escrow states) for wage income is required. Verification of the existence of the Borrower's self-employed business through a third-party source within 30 calendar days from the mortgage note date (or funding date for escrow states) is required. If the Borrower is in the military, a military leave and earnings statement dated within 30 calendar days from the mortgage note date (or funding date for escrow states) is acceptable in lieu of a verbal verification. Or a verification of employment through the Defense Manpower Data Center (DMDC) website (https://dwp.dmdc.osd.mil/dwp/app/main) If using a third-party service to verify employment (e.g., The WorkNumber, Quick Confirm, or LexisNexis) the following policy applies: • Request to third party must be within 10 business days of the mortgage note date (or funding date for escrow states) • Employment verification between employer and third party must be within 35 calendar days of the mortgage note date. To comply with a verbal verification of employment (or telephone confirmation) requirement, independently obtain the phone number and address for the Borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, a similar directory or by contacting the applicable licensing bureau.
Wage Earners	Wage earners receive a consistent wage or salary from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. If the Borrower's earnings are regular, use the monthly gross income to qualify. If a Borrower's hours fluctuate, either average the current weekly hours shown on the paystubs provided or average the past 2 years W-2 earnings and the year-to-date earnings. An explanation is required when the base income used for the borrower's qualification exceeds 3% of the year-to-date earnings. Additional documentation may be required. The following documentation is required: • Automated Verification of Income including the year-to-date and prior 2 years earnings OR • Most recent paystub(s) • W-2s for the most recent 2 years • The year-end paystub when a W2 is not available New Employer When the Borrower has started with a new employer while the loan is in process and/or within 30 calendar days of the application date, one of the following documentation options is required: • A copy of the offer letter AND • Verbal verification from the employer confirming the borrower has started at the rate shown on the offer letter OR • A written verification of employment or an automated verification of income including the year-to-date earnings OR

	• The most recent paystub dated within 30 calendar days AND • W-2s for the most recent 2 years OR • The year-end paystub when a W2 is not available Variable Income If the income documentation provided shows a consistent two-year work history with the same employer and includes the most recent paystubs and 2 years W-2 forms show variable income such as but not limited to bonus, overtime, commission, an average of that income can be used for qualification without the need of a written verification of employment (WVOE) or verification of income (VOI) and / or year-end pay stubs. Deducting the base pay from the W-2 amounts and ensuring that the income is supported by year-to-date earnings is necessary. Example: The paystub(s) show variable income types. The borrower has worked for the same employer for the past 2 years and the income has increased year over year. In the example below, a 24-month average of the variable income would be used if the YTD variable income showing on the paystub supports the qualifying amount. • 2024- The YTD base income will be calculated based on the information shown on the paystub(s) provided. The 2024 paystub shows the borrower is paid $30 an hour and works 40 hours a week- 30 x 40 x 52 weeks = $62,400 2023 W2- $100,000 - $62,400 = $37,600 in variable income 2022 W2- $80,000 - $62,400 = $17,600 in variable income $37,600 + $17,600 = $55,200 ÷ 24 months (income increased) = $2,300 monthly (qualifying variable income) When using the most recent paystubs and 2 years W-2 forms to calculate the variable income (as mentioned above), the variable income must show as “Other’ in the Income Source section on the final 1003.
Secondary Employment and/or Multiple Jobs	A Borrower must have at least 2 years employment history with all secondary employers and/or multiple jobs in order to include the income for qualification purposes. When a gap of employment greater than one month in the most recent 12-month period is documented, the income from secondary and/or multiple employers cannot be used for qualification purposes. If this income is received for less than 2 years, it may not be considered as qualifying income; however, it can be considered as a compensating factor only. Secondary employment and/or multiple jobs income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The following documentation is required: • An Automated Verification of Income including the year-to-date and prior 2 years earnings OR • Most recent paystub(s) • W-2s for the most recent 2 years
Bonus or Overtime	Bonus or overtime income is defined as compensation in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least 2 years. Bonus or overtime income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. When the income has been received for less than 2 years but greater than 18 months, the income can be used to qualify, however the income must be averaged over 24 months. The following documentation is required:

	• An Automated Verification of Income including the year-to-date and the prior 2 years earnings OR
	  • Most recent paystub(s), W-2s for the most recent 2 years AND
	  • The year-end paystubs for the most recent 2 years
	
	NOTE: Bonus Income: When the loan application date is on or after October 1st and the income documentation does not show any YTD bonus income, the prior year paystub showing bonus income was paid out in the fourth quarter is required.

Commission	Commission income is defined as a fee or percentage paid to an employee for performing a service and may be accepted as stable income if the income has been received for at least 2 years. Commission income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. When the income has been received for less than 2 years but greater than 18 months, the income can be used to qualify, however the income must be averaged over 24 months. The following documentation is required: • An Automated Verification of Income including the year-to-date and prior 2 years earnings OR • Most recent paystub(s), W-2s for the most recent 2 years AND • The year-end paystubs for the most recent 2 years
Non-profit	Th founder's of a non-profit organizations compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. An explanation is required when the base income used for the borrower's qualification exceeds 3% of the year-to-date earnings. Additional documentation may be required. The founder's income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The qualifying income must be from the same non-profit organization. The following documentation is required: • Most recent paystub(s) AND • W-2s for the most recent 2 years OR • The year-end paystub when a W2 is not available If the borrower does not receive a W2 from the non-profit organization, the following documentation is required: • All pages and schedules of the most recent 2 years personal tax returns OR • 2 years 1099s AND • All pages of the most recent 2 months personal bank statements Founder(s) are not to be considered self-employed. However, the business tax returns are required to determine the qualifying income for the founder(s).
Self-Employed	A self-employed Borrower is any individual who has a 25% or greater ownership interest in a business and/or receives 1099s. Some examples of self-employed individuals who receive 1099s to document income include contract workers, real estate agents and/or individuals relying on investments as their primary source of income. Evidence that the Borrower has at least 2 consecutive years of self-employment operating the same business in the same location is required to demonstrate income stability. Self-employed Borrower's relocating to a different geographic area must document and explain the reasoning that their income will continue at the

	same level at the new location. Consider the acceptance of the company's service or products in the new marketplace before considering the income for qualifying purposes. Document and explain how the Borrower's income will continue at the same level in the new location. The following documentation is required: **Self-Employed greater than or equal to 5 years** • All pages and schedules of the most recent years personal tax returns • All pages and schedules of the most recent years business tax returns (with exception to sole proprietorships); AND • Most recent years 1040 tax transcripts *The business from which the borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the borrower has had an ownership share of 25% or more for the past five years consecutively *For partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on Form 1003. If the business was in existence prior to the borrower having 25% or more ownership, proof the borrower has had 25% or more ownership for at least five years consecutively is required. *For sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on Form 1003 for the number of years the business has been in existence. NOTE: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable third-party source, such as but not limited to an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, and/or partnership agreements NOTE: When the borrower provides 2 years of personal and/or business tax returns, regardless of the reason (including but not limited to calculating rental income), all pages and schedules of the most recent 2 years personal and business tax returns will be required. As a result, the qualifying income will be based on 2 years tax returns, regardless of the length of the self-employed history. **Self-Employed less than 5 years** • All pages and schedules of the most recent 2 years personal tax returns • All pages and schedules of the most recent 2 years business tax returns (with exception to sole proprietorships); AND • Most recent 2 years 1040 tax transcripts If any of the Borrower's on the loan transaction are self-employed and a secondary business loss or losses have been established from documentation and/or information obtained during the underwriting process, the business loss or losses must be deducted from the total qualifying income. If any of the Borrower's on the loan transaction are a W-2 wage earner and a secondary business loss or losses have been established from documentation and/or information obtained during the underwriting process, the business loss or losses do not need to be deducted from the total qualifying income.

	NOTE: If the Borrower is less than 25% owner of a business, a 24-month average of the income can be used without obtaining all pages and schedules of the business tax returns. K-1 forms are required to show the borrower has less than a 25% ownership interest in a business. They can be used to calculate income without additional documentation. Borrower(s) who have less than a 25% ownership interest in a business are not considered self-employed. Additional information and documentation may be requested to further determine the stability of the self-employed income used to qualify and/or to fully evaluate the impact of any established business loss or losses. Depending on when the personal tax returns were filed, the documentation list above is required along with the following for all mortgage loan applications: • Proof of filing • 1040 federal tax extension (form 4868) • Additional personal and/or business tax returns with all pages and schedules The following is required for proof of filing: • Provide evidence that the tax liability owed showing on the 1040 tax returns is paid in full OR • Provide evidence the refund shown on the 1040 tax returns was received by the Borrower. If refund hasn't received yet, "Where's My Refund?" tool on the IRS website is acceptable.
Rental	Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following: • 2-unit primary residence in which the borrower occupies one of the units ○ The rental income cannot be used to reduce the proposed housing expenses. It can only be added as additional income • Investment property (1 unit) • Conversion of the primary residence to an investment property The Borrower must own a primary home in order to use rental income. Rental income received from Accessory Dwelling Unit's is not permitted. Rental income derived from other REO investment properties that have 1-4 units is permitted. Rental income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. When multiple sources of documentation are provided to verify rental income, the lowest calculated rental income will be used for qualification. Short-term rental income from single-family residences is acceptable for investment properties only when there is a 2-year history showing on the most recent 2 years personal tax returns. All pages and schedules of the most recent 2 years personal tax returns (and business tax returns if applicable) along with the operating income statement is required to document the short-term rental income. Short-term rental income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. A short-term lease agreement is not acceptable documentation. Short-term/seasonal rental income from second homes cannot be used to qualify. Any monthly net rental income must be added to the Borrower's total monthly income. Any net rental loss must be added to the Borrower's total monthly obligations. **Rental Income Calculation and Documentation** If using personal tax returns to calculate net rental income (loss), Schedule E does not account for the full amount of the mortgage payment for the rental

<table>
<tr>
<td></td>
<td>property. Any depreciation, interest, taxes, and insurance must be added back in the cash flow analysis before subtracting the PITIA payment, to avoid double counting the expenses. Non-recurring property expenses may be added back, if documented accordingly.
To verify a non-recurring expense (ex. new roof), a paid work order matching the expense amount on the tax return is required.

If using the lease agreement, calculate the net rental income using 75% of the gross rent amount as shown on the lease agreement(s), with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses.

Review the table below for the applicable rental income calculation method and documentation requirements.
<table>
<tr>
<td>12 or more months</td>
<td>24-month average from Schedule E
NOTE: If less than 24 months but greater than 12 months– average the income over the total number of months rented</td>
<td>• All pages and schedules of the most recent two years personal tax returns evidencing history of receiving rental income</td>
</tr>
<tr>
<td>Acquired property subsequent to filing personal tax returns OR less than 12 months income shown on the tax returns</td>
<td>75% of the gross rent income amount as shown on the lease agreement(s)</td>
<td>• Current and fully executed lease agreement(s)
• Proof of receipt of the rents received for the lower of*:
○ The most recent 3 months
○ All months available since lease inception
NOTE: Cash deposits to verify receipt of rents is not permitted.</td>
</tr>
<tr>
<td>Conversion of a primary residence</td>
<td>75% of the gross rent income amount as shown on the lease agreement(s)</td>
<td>• Current and fully executed lease agreement
• Proof of receipt of security deposit*
NOTE: Conversion of a second home to a rental property is unacceptable</td>
</tr>
</table>
* Proof of receipt can be one or more of the following:
• Cancelled checks OR
• All pages of the bank statement(s) OR
• Account/Transaction summary with verification the bank account is owned by the Borrower</td>
</tr>
<tr>
<td>Alimony, Child Support and Maintenance Payments</td>
<td>Alimony, child support and maintenance income will be considered when based on a divorce decree, court ordered separation agreement, court decree, or another legal agreement provided the payment terms confirm that the income will continue for at least the next 3 years. If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child for income continuance purposes.

When determining the acceptability of this income, the Borrower's regular receipt of the full payment due and any limitations on the continuance of the alimony, child support and/or maintenance payments (duration over which the income is required to be paid) must be taken into consideration. If a Borrower who is separated does not have a court order that specifies the term of the alimony, child support or maintenance payment income, the proposed or voluntary payments should not be considered as stable income.

Alimony, child support and/or maintenance payments income may be considered stable with documentation evidencing that the Borrower has been receiving full, regular, and timely payments for the most recent 6 months.</td>
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	Alimony, child support and/or maintenance payments income is not considered stable when a Borrower has been receiving full, regular, and timely payments for less than six months or has been receiving full or partial payments on an inconsistent or sporadic basis. In those cases, the income can only be used as a compensating factor. One of the following is required to document the income: • A copy of a written legal agreement or court decree detailing all terms of the income type including the amount of the award and the time period over which the income will be received • Any applicable state law that mandates child support document detailing the terms and conditions under which payments must be made. In addition, one or more of the following is required to document regular receipt of the full payment based on the number of months of the income is being used to qualify as described above: • Court records • Most recent personal tax returns with all pages and schedules • All pages of the most recent bank statements • Deposits slips • A transaction log from the Borrower's bank account OR • Cancelled checks
Auto Allowances	Automobile allowances will be considered stable income for a Borrower who has been receiving the income for the past 2 years, provided all associated business expenditures are included in the calculation of the Borrower's total debt-to-income ratio. Auto allowance income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The following documentation is required: • Most recent paystub(s) showing the year-to-date auto allowance earnings AND • Year-end paystubs for the most recent 2 years showing the auto allowance earnings OR • W-2s for the most recent 2 years showing the auto allowance earnings Income and Debt Approach The full amount of the allowance is added to the Borrower's monthly income. The full amount of the lease or financing expenditure for the automobile must be added to the Borrower's total monthly obligations.
Capital Gains	A capital gain is typically a one-time transaction; and, therefore, should not be considered in determining income. However, if the Borrower has a constant turnover of assets that produces regular gains, the capital gain may be considered as qualifying income. If the Borrower has a documented two-year history of generating capital gains, an average of the gains and losses over the most recent prior 2-year period will be used as long as the Borrower(s) provides evidence that they own additional property or assets to support the average capital gain income for the next 3 years. Personal tax returns must be reviewed to get an accurate picture of the average earnings from this source. For example, an asset sold during the year might be an income-generating asset, resulting in a reduction in future income after the sale. The following documentation is required: • All pages and schedules of the most recent 2 years personal tax returns. In some cases, additional years tax returns may be required. • Evidence of ownership of additional property or assets

<table>
<tr><td>Employment by a Relative</td><td>A Borrower employed by a family member or employed by a family-held business, is eligible. If employed by a relative, the business accountant must verify that the Borrower is not self-employed by indicating their percentage of interest in the business. The income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. Documentation may include but would not be limited to one of the following:
Online sources such as a government website that shows the current owners
CPA letter to verify ownership interest
All pages and schedules of the most recent years personal tax returns
1040 tax transcripts</td></tr>
<tr><td>Housing or Parsonage Allowance</td><td>A non-military housing or parsonage allowance may be considered qualifying income, with documentation evidencing that the Borrower has been receiving regular and timely payments for the most recent 12 months.
The housing allowance may not be used to offset the monthly housing payment.

The following income documentation is required:
Written verification of employment or an Automated Verification of Income detailing the income OR
Letter from employer AND
Paystubs reflecting the amount of the housing or parsonage allowance OR
Terms and conditions under which the housing or parsonage allowance is paid AND
Proof of receipt of housing allowance for the most recent 12 months</td></tr>
<tr><td>Interest & Dividend</td><td>A two-year average of interest and dividend income may be used to qualify if supported by sufficient assets after closing to support continuance of the interest or dividend income for at least 3 years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used for cash to close is deducted and the interest and/or dividend amount is recalculated based on the unliquidated portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend and one of the following types of income documentation is required:
All pages and schedules of the most recent 2 years personal tax returns OR
2 years 1099s AND
All pages of the most recent 2 months personal bank statements
Interest & dividend income must be averaged over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged.</td></tr>
<tr><td>Military</td><td>Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations (BAS), quarters (BAH) allowance and proficiency pay may be counted as income and grossed up if they are verified as regular, continuous, and non-taxable. Refer to the Non-Taxable section.

The following documentation is required:
Leave and Earnings Statement (LES)
Reserves or National Guard Called to Active Duty
Reservist or National Guard income may be considered acceptable if it is stable and a 2-year history of receiving the income is documented.

If one of the Borrower’s is on active duty or has been called to active duty after the mortgage loan application has been made, the mortgage loan is in process, and the Borrower wants to refinance their primary residence, which</td></tr>
</table>

	the family does not currently occupy, the underwriter must confirm the following: • The Borrower must certify that the subject property is their primary residence • The subject property is vacant • The Borrower must certify that they will return to the subject property as their primary residence upon completion of the temporary assignment AND • The Borrower must provide documentation regarding the temporary assignment (orders supporting the assignment including duration) The following documentation is required: • Standard income documentation (Wage Earner) for non-reservist or national guard job AND • Leave and Earnings Statement (LES) Borrower Qualification The Borrower must be qualified using the lesser of the following: • Reservist or National Guard income OR • Current job or a combination of Reservist or National Guard income, and current job pay (i.e., current employer pays the Reservist or National Guard their standard income minus Reservist or National Guard income)
Non-Taxable	Generally, income is taxable unless it is specifically exempted by law. Non-taxable income may show on the Borrower's tax return but is not taxed. Verify and document that the particular income source is non-taxable. Documentation that can be used for verification includes award letters, policy agreements, account statements or any other documents that address the non-taxable status of the income. If the income is verified as non-taxable, and the income and its tax-exempt status are likely to continue, develop an adjusted gross income for the Borrower by adding an amount equivalent to 25% of the non-taxable income to the Borrower's income.
Note Receivable	Ongoing revenue received from Note(s) Receivable income may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of 3 years is required. The following documentation is required: • A copy of the Note(s) documenting the amount, frequency and duration of the payments AND • Proof of receipt of the income for the most recent 12 months
Disability	Disability benefit payments (Social Security disability insurance benefits, maternity/parental benefits, etc.) may be treated as acceptable and stable income unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. The review date on a Social Security disability award letter is not considered a defined expiration date. Confirm the Borrower's current eligibility for the disability benefits by obtaining a statement from the benefit payer (insurance company, employer, or other qualified and disinterested party) documenting the amount and frequency of the payments. In cases where the income does not have a defined expiration date, the income may be considered stable, predictable, and likely to continue. The Borrower will not be required to provide additional documentation evidencing continuance of the income.
Public Assistance Program	Public Assistance (e.g., Temporary Assistance for Needy Families (TANF)) may be considered as acceptable income provided the income has been received for the last 2 years and is expected to continue for the next 3 years.

	See the Unemployment Benefits section for details regarding the use of unemployment income. The following documentation is required: • Letters or exhibits from the paying agency establishing the amount, frequency, and duration of the payments • Documentation showing a 2-year history of full, regular, and timely payments
Retirement, Annuity Income, and IRA Distributions	Retirement, Annuity Income, and IRA Distributions may be used to qualify. 3 years continuance of the monthly annuity payment, 401(k) distribution and/or IRA distribution must be documented. Monthly, periodic, or annual distributions are acceptable. The following documentation is required for Retirement, Annuity, and IRA income: • All pages of the 2 most recent months statements OR the most recent quarterly statement showing the current balance AND one of the following: • The most recent award letter(s) / distribution agreement from the organization(s) providing the income • Most recent year 1099 • All pages of the most recent bank statement showing direct deposit of the funds NOTE: When using monthly IRA distributions as qualifying income, a minimum of 3 distributions must be documented prior to clear to close with at least 2 distributions received prior to the application. The 2 distributions received prior to the application date must be equal in amount and will be used for qualification. Adjusting the distribution amount to qualify is not permitted. NOTE: When the annuity documentation shows "lifetime benefit", no additional documentation is required If additional income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by.
Pension	Pension income may be used to qualify. Evidence of 3 years continuance must be documented with the exception of Military retirement, CALPERS, or Office of Personnel Management/Department of Defense pensions. In addition to proof of continuance (when required), one of the following documents is required: • The most recent award letter(s) from the organization(s) providing the income OR • Most recent year 1099 OR • The current statement from the organization(s) providing the income OR • All pages of the most recent bank statement showing direct deposit of the funds If additional income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by. NOTE: When the pension documentation shows "lifetime benefit", no additional documentation is required
Royalty Payment	Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification. Verification that the income can be expected to continue for a minimum of 3 years is required. Due to fluctuating Royalty Payments, the income must be averaged

	over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The following documentation is required: • All pages and schedules of the most recent 2 years personal tax returns including the related supplemental income and loss schedule (Schedule E) AND • Copy of the terms and agreements from the provider
Seasonal	Seasonal income may be acceptable if the Borrower has a 2-year history of seasonal employment. Due to fluctuations, average the W-2 amounts over the most recent 2 years unless it is declining, then the most recent 12 months will be averaged. The following documentation is required: • Most recent paystub(s) (if available); AND • W-2s for the most recent 2 years; OR • Written confirmation from the employer(s) that there is a reasonable expectation that the Borrower will be rehired for the next season If the information and documents received cannot meet the requirements, the income should only be considered a Compensating Factor.
Social Security	Social Security income for retirement or long-term disability that the Borrower is drawing from their own account/work record does not have a defined expiration date and is expected to continue. Social Security income based on another person's account/work record or from the Borrower's own work record, but for the benefit of another (such as a dependent) may also be used to qualify. The following documentation is required: • The most recent Social Security Administration's (SSA) award letter OR • Most recent year 1099 and all pages of the most recent bank statement showing proof of current receipt Social security income has a maximum of 85% taxable income. The 15% non-taxable portion can be grossed up by a factor of 25% without requiring any additional documentation. If additional income is needed to qualify, obtain all pages and schedules of the most recent years tax returns to verify any additional non-taxable income that the income can be grossed up by. Proof of 3 years continuance is required when the Borrower is drawing Social Security benefits from another person's account/work record or from the Borrower's own work record, but for the benefit of another (such as a dependent) to qualify.
Teachers	When a Borrower is employed as a teacher, the income may be paid over 10 or 12 months. The following documentation is required: Written Verification of Employment or an Automated Verification of Income including the year-to-date and prior 2 years earnings OR • Most recent paystub(s); AND • W-2s for the most recent 2 years; OR • The year-end paystub when a W2 is not available If the required documentation shows the number of pay periods per year, calculate the qualifying income using the documented pay structure. If the number of pay periods is not shown or not clear, qualify the Borrower using a 12-month average. If the Borrower does not qualify with a 12-month average,

	obtain a copy of a fully executed employment contract with no contingencies or other documentation from the employer verifying the pay structure (i.e., 10 months or 12 months). Stipends or supplemental income must be documented as regular and continuous.
Temporary Leave	During a temporary leave, a Borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the Borrower has the ability to repay the mortgage and all other monthly obligations. Leave ceases being temporary when the Borrower does not intend to return to their current employer or does not have a commitment from the current employer to return to employment. If a Borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next 3 years because they are being converted to long-term benefits, the long-term benefits must be used as the qualifying income. **Returning to work prior to the loan closing date** Use the regular employment income that was received prior to the leave The following documentation is required: • Confirmation from the employer that the Borrower will be employed at the same rate of pay that was earned prior to the leave OR • The most recent paystub showing the current rate of pay NOTE: When a Borrower has taken leave under the provisions of FMLA, additional documentation is not required from the employer if the FMLA documentation provided confirms the borrower's return to work. **Returning to work after the loan closing date** If the Borrower will return to work after the loan closing date, the qualifying income must be the lower of the Borrower's temporary leave income (if any) or regular employment income. The following documentation is required: • Terms and conditions of the temporary leave income • Proof of receipt of the temporary leave income AND • Proof of the regular employment income
Tips and Gratuity	Tip or gratuity income is considered compensation in addition to an employee's regular wages. An average of the tip income may be used to qualify if the Borrower has received it for the last 2 years. The following documentation is required: • Written Verification of Employment or Automated Verification of Income OR • Current paystub(s) AND • Most recent two years W-2s OR • Year-end paystubs for the most recent 2 years if the W2 is not available
Trust Income	Confirm Trust Income and its continuance for at least 3 years by obtaining a copy of the fully executed trust agreement or trustee statement from a third-party trustee to document the following: • Total amount of designated trust funds • Terms of payment • Duration of the trust AND • What portion of income to Borrower is not taxable Fixed trust payments require the most recent 12-month history of receipt. When the borrower is unable to document a 12-month history of receipt, the trust documentation must reflect all of the following: • Fixed payments • The borrower is not the grantor of the trust AND

	• At least one payment must be received prior to loan closing Variable trust payments require a minimum 24-month history of receipt to be documented with all pages and schedules of the most recent 2 years personal tax returns and the most recent months personal bank statement showing current receipt of the trust income.
Unemployment	The unemployment income received by seasonal workers*, must have been consistently received for the past 2 years, is predictable and is likely to continue. The unemployment income must clearly be associated with re-occurring layoffs. Due to fluctuations with Unemployment income, average the income shown on the tax returns over the past 24 months unless declining, then average the amount shown on the most recent tax return over 12 months. The following documentation is required: • All pages and schedules of the most recent 2 years personal tax returns * When currently unemployed from seasonal work, a statement documenting all terms and conditions of the unemployment income including the continuance of the income is also required (review Seasonal).
Union Members	Union Members may hold several jobs during a year in which the Borrower may have multiple paystubs and W-2s in the most recent 2 years. For a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the following documentation is required: • Verbal verification of employment from the union dated in the last 30 calendar days confirming the Borrower is in good standing with the union AND the Borrower is employed by the same employer issuing the current paystub used for qualification. If the union cannot provide confirmation, a verbal verification of employment with from the present current employer is required; AND • Most recent paystub(s) from the current employer. If there has been more than one employer in the current year, the last paystub from each employer is required to calculate the year-to-date earnings. AND • W-2s from all employers in the most recent 2 years, OR • All pages and schedules of the most recent 2 years personal tax returns in lieu of W2's Due to fluctuations with Union Members income, average the income shown on the W-2s over the most recent 2 years, unless the income is declining, then the most recent 12 months will be averaged.
Veterans Affairs (VA) Benefits	The Veterans Benefits Administration (VBA) provides a variety of benefits and services to servicemembers, veterans, and their families. VA Benefits are non-taxable. Develop an adjusted gross income for the Borrower by adding an amount equivalent to 25% to the amount shown on the most recent award letter. The following documentation is required: • Copy of the most recent award letter detailing the amount of the payment received OR • Certificate of Eligibility detailing the amount of the payment received OR • All pages of the most recent bank statement showing direct deposit of the funds in the borrower's name.
Restricted Stock Units (RSU)	Income from Restricted Stock Units (RSUs) may only be used as qualifying income if the income has been consistently received from the current employer for the most recent 2 years as identified on the year-end paystubs, W-2s, a WVOE or an Automated VOI. The following documentation is required:

	• Vesting schedule(s) currently in effect detailing past and future vesting; AND • Evidence of receipt of the RSU income for the most recent 2 years; AND • Current paystub showing the RSU payout Additionally, all of the following requirements must be met to use RSU income to qualify: • The vesting schedule indicates the income will continue for a minimum of 2 years at a stable or increasing level as the prior 2 years • The qualifying income is supported by future vesting based on the stock price and vesting schedule • Additional awards are stable or increasing and awarded on a consistent basis • There is no indication that the Borrower will not receive future awards consistent with the historical awards received • The Borrower is currently employed by the employer issuing the RSU's AND • The stock is publicly traded A 2-year average of the prior RSU income received must be used to calculate the income. The continuance is based on the vesting schedule using a stock price based on the lower of the current stock price or the current 200-day moving average. • 200-Day Moving Average of share price x total number of distributed vested shares (pre-tax) in the most recent 24 months divided by 24 months
Unacceptable Sources of Income	Income from sources considered ineligible include, but is not limited to the following: • Future income • Foreign income • Income derived from sources outside the United States • Income derived from the subject property with land being leased to another party • Income derived from farm income when the property is being used for a specific purpose, such as a vineyard or bottling barns • Income derived from personal gambling winnings • Income determined to be temporary or one-time in nature • Lump sum payments such as inheritances or lawsuit settlements • Lump sum payments of lottery earnings that are not on-going • Mortgage credit certificates • Non-incidental income received from farming/agricultural use of a property • Rental income received from the Borrower's primary residence or Second Home • Rental income received from Accessory Dwelling Units • Rental income from boarding houses (properties with individual room rentals) • Retained earnings in a company • Stock options • Taxable forms of income not declared on personal tax returns • Trailing co-borrower income • Unverifiable income • VA education benefits • Self-employed income derived from any cannabis related business • Asset Depletion • Payment In-Lieu of Medical Coverage/Cafeteria Plans • Cash deposits to verify receipt of rental income

ASSETS	
Cash to Close	Asset documentation is required to evidence that the Borrower has sufficient funds to pay the loan cash to close for Standalone 2nd. All cash to close must be documented and verified.

	Funds to close the transaction (not including paying off debts) must be documented if the amount is greater than 1 months PITIA payment (first and second mortgages).
Acceptable Asset Sources	Acceptable sources of assets owned by the Borrower(s) are listed below: • Checking • Savings • Money Market • Certificates of Deposit • Retirement Accounts • Savings Bonds • Stocks/Bonds /Investment & Brokerage Accounts • Stock – Privately Held Corporation • Trust Accounts • Foreign Assets
Checking, Savings, Money market and Certificate of Deposit	Funds on deposit in checking accounts, savings accounts, money market accounts and/or a certificate of deposits may be used for cash to close. • Individual Accounts - funds in the Borrower's individual bank account is acceptable • Joint Accounts - funds held in a joint bank account are acceptable since the Borrower has access to all funds in the account at all times Accounts that do not allow the Borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the Borrower is not the beneficiary, such as custodial accounts. **Bank Statements** All pages of the 2 months most recent bank statements to document the Borrower's assets. Bank statements must clearly identify: • Name and address of the institution • The Borrower as an account holder • At least 4 digits of the account number • Time period covered by the statement • All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account AND • Beginning and ending account balance. If supplemental information is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance and date is acceptable. Supplemental information must be on a bank form indicating the name of the bank or on bank letterhead signed by a bank representative. ATM receipts cannot be used to verify assets. Bank or investment account statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the internet uniform resource locator (URL) address is included identifying the source of information as well as all of the identifying information listed above for standard bank statements or protected bank statements retrieved online. Statements downloaded directly from the internet to a Microsoft Word document or Microsoft Excel spreadsheet are not acceptable. **Verification of Deposit (VOD)** A verification of deposit as a standalone verification document is not acceptable. Full account statements must be provided. A verification of deposit can be used to provide supplemental information (e.g., update account balance) issued by the depository institution may be obtained. Each verification of deposit must clearly identify: • The name and address of the depository or investment institution

	• The Borrower as the account holder • Account number • Type of account • The open date • The average balance for the previous 2 months AND • The account balance as of the date of the VOD In cases where average balances are not available, all pages of the most recent 2 months bank statements must be provided. The VOD must be obtained directly from the depository institution. A VOD should never be mailed to a post office box or to an individual's attention. If the Borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited. **Review of Asset Account Statements / Identification of Large Deposits** Any indications of borrowed funds must be investigated. Indications of borrowed funds include: • A recently opened account OR • A recently received large deposit OR • An account balance that is considerably greater than the average balance over the previous few months When there is a recently opened account with a substantial balance, a discrepancy between the average and current balances or a large increase in an existing account, the source of funds must be explained by the Borrower and verified. If a large deposit is from another account that is verified in the mortgage loan file, that account must be verified after the withdrawal to ensure that the assets are not counted twice. Unverified funds are not acceptable sources for cash to close. All asset documentation should be examined for signs of fabrication or alteration as well as analyzing the documentation to calculate interest and reviewing deposits against income levels and sources to ensure these are reasonable and are necessary to validate the documents. A large deposit is defined as a single deposit where the deposit exceeds 50% of the total monthly qualifying income. When assets are required to qualify, large deposits must be properly sourced.
Retirement Accounts	Vested funds from individual retirement accounts (IRA, SEP-IRS, and KEOGH) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as the source of funds for cash to close. The most recent retirement account statement must be provided and must identify that the funds have been liquidated prior to closing.
Savings Bond	United States savings bonds may be used as a source of cash to close with documentation of redemption and receipt. The documentation must include a statement from a representative at a financial institution confirming that they have seen the bonds, listing the serial numbers of the bonds, maturity date, type, and amount of bond, and stating that the Borrower is the owner. There must be proof of the bond value from the appropriate U.S. Treasury table.
Stocks/Bonds /Investment & Brokerage Accounts	Verification of liquidation and receipt is required when the funds from stocks/bonds/investment & brokerage accounts are used for cash to close. The following documentation is required: • The most recent monthly or quarterly statement from the depository or investment firm • Photocopy of the stock certificate accompanied by a newspaper stock list that is dated as of or near the application date or an internet stock list. Government bonds should be valued at the purchase price unless redemption value can be determined and verified. **Stock – Privately Held Corporation/Unlisted Corporation**

	When the stock of a privately held (not publicly traded) corporation will be used as cash to close the price per share must be validated by a CPA for the corporation. A copy of the buy/sell agreement is also required. Verification of receipt of the funds from the sale of the stock is required. In the situation where the privately held corporation is a source of the Borrower's income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse effect on the business or reduce the Borrower's current income level.
Trust Accounts	Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details the following information: • Identifies the trustee, including name, address, telephone number and individual contact. The trustee must be an independent party that typically handles trust accounts, such as a trust company, financial institution, CPA, or lawyer • Identifies the Borrower as the beneficiary • Shows that the Borrower has access to all or certain specific amount of the funds • Evidence that the trust has the assets to disburse funds to the Borrower • If the assets are required for closing, proof of receipt is required
Foreign Assets	Foreign assets being used for cash to close must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be converted into United States currency by an independent third party and placed in a United States banking institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.
Unacceptable Asset Sources	Unacceptable asset sources include, but are not limited to the following: • Business Funds • Bridge Loans • Cash advance on a revolving charge account or unsecured line of credit • Cash for which the source cannot be verified (e.g., garage sales) • Contribution limitations • Credit card financing • Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing contributions in the seller concession • Funds from community second mortgage/down payment assistance program • Funds in a custodial or in trust for account • Individual development accounts • Labor performed by the Borrower, also referred to as sweat equity • Materials furnished by the Borrower that are not part of a pre-closing agreement with a builder • Pooled funds • Real estate commission • Salary advance • Gift funds • Crypto currencies • Stock options and non-vested restricted stocks • Accounts where the Borrower does not have immediate access to the funds (Including where the Borrower is not the Beneficiary, such as a custodial account)

PROPERTY VALUATION

Appraisal requirement	• Any of the following options are permitted:
	  ○ Full Interior Appraisal (1004/1025/1073)**
	  ○ Prior Use Appraisal (Review all requirements below)
	  ○ Automated Valuation Model (AVM)*** - Max. 2nd line <=$400,000 with HCLTV <=80%.
	**When a full interior appraisal shows "SUBJECT TO", a 1004D from the same appraiser who completed the appraisal is required to certify that any required repairs or improvements mentioned in the appraisal have been completed.
	
	A 1004D is required to recertify the value of a full interior appraisal that is older than 90 days.
	A prior use appraisal is an existing full interior appraisal that was completed prior to or in conjunction with the mortgage loan application from a lender other than MCFI.
	
	Prior Use Appraisal - Recertification is acceptable when the following requirements are met:
	  ○ Report has been completed within 12 months of settlement date
	  ○ Current appraisal provided must be on form 1004(Single family), 1025(multi-family), or 1073(Condo)
	  ○ Original appraisal must be "AS IS" or be accompanied by a 1004D from the same appraiser who completed the prior use appraisal certifying that any required repairs or improvements mentioned in the appraisal have been completed when "SUBJECT TO" shows
	  ○ A Desktop Review and Property Condition Report are required to validate any use of a prior use appraisal
	    ▪ Desktop Review Risk Score must be low or moderate with no additional review recommended by reviewer
	    ▪ Desktop Review commentary contains no comments that adversely impact value, marketability, or condition of the property
	    ▪ Desktop Review Home Data Index must support either a neutral or increasing market trend
	
	• When using a Full Interior, Prior Use appraisal, the following requirements must be met:
	  ○ Minimum Q5 quality rating
	  ○ Minimum C5 condition rating
	  ○ Shows As Is
	  ○ Cost to cure cannot exceed the lower of $2,000 or 2% of the appraisal value
	
	***__Automated Valuation Model (AVM)__**
	An AVM is a report by a computer program that uses real estate information, such as comparable sales, property characteristics, tax assessments, and price trends to provide an estimate of value for a specific property.
	
	Maximum 2nd line amounts less than or equal to $400,000 with HCLTV less than or equal to 80%, AVM's from any of the following AVM vendors are acceptable as long as the AVM value estimate meets the respective Forecast Standard Deviation (FSD) as shown below:

	<table><tr><th>AVM Vendor</th><th>FSD Score Requirement</th></tr><tr><td>Black Knight</td><td><= 0.08</td></tr><tr><td>Clear Capital</td><td><= 0.13</td></tr><tr><td>Collateral Analytics</td><td><= 0.10</td></tr><tr><td>CoreLogic</td><td><= 0.13</td></tr><tr><td>House Canary</td><td><= 0.10</td></tr><tr><td>Red Bell Real Estate</td><td><= 0.10</td></tr><tr><td>Veros</td><td><= 0.10</td></tr></table> **When an AVM is used to determine the property value, a Property Condition Report is required. Review the Property Condition Report section below for additional information.**
Desktop Review	The Desktop Review is performed by a licensed appraiser to determine that the value conclusion of the appraisal is reasonable and adequately supported. The Desktop Review should also identify any material deficiencies that could compromise the reliability of the appraisal. A Desktop Review is acceptable when the following requirements are met: • The risk score is low or moderate • No additional review recommended by reviewer • The commentary contains no comments that adversely impact value, marketability, or condition of the property • The market trend is either neutral or increasing
Property Condition Report	A Property Condition Report is used in conjunction with an AVM and will provide an exterior visual inspection of the subject property. A Property Condition Report is acceptable when the following requirements are met: • No deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements • Subject condition is average or better • No for sale or rent sign present • No zoning violations or potential zoning changes • Subject conforms to the neighborhood
Unacceptable Appraisal Practice	The following are examples of unacceptable appraisal practices: • Development of a valuation conclusion based either partially or completely on the race, color, or national origin of either the prospective owners or occupants of the mortgaged property or of the present owners or occupants of the properties in the vicinity of the mortgaged property • Development and/or reporting an opinion of market value that is not supportable by market data or is misleading • Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited • Misrepresentation of the physical characteristics of the mortgaged property, improvements, or comparable sales • Failure to comment on negative factors with respect to the subject neighborhood, mortgaged property, or proximity of the mortgaged property to adverse influences • Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the mortgaged property and the prior sales of the mortgaged property and the comparable sales • Selection and use of inappropriate comparable sales • Failure to use comparable sales that are locationally and physically similar to the mortgaged property • Creation or use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property

	• Use of adjustments to the comparable sales not reflective of the market's reaction to the differences between the mortgaged property and the comparable sales • Not supporting adjustments in the sales comparison approach • Failure to make adjustments when they are clearly indicated • Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the mortgaged property without the appraiser's verification of the information from a disinterested source • Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the Originator or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments • Development of and/or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice in place as the effective date of the appraisal • Failure to address and note adverse factors or conditions that affect value or marketability with respect to the neighborhood, site, or improvements • Use of unsupported descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect • Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect and may or may not affect the use and value of a property • Use of unacceptable terminology including but not limited to: o Pride of ownership, no pride of ownership, and lack of pride of ownership o Poor neighborhood o Good neighborhood o Crime-ridden area o Desirable neighborhood or location and o Undesirable neighborhood or location Other subjective terminology that can result in erroneous conclusions is equally unacceptable.