MEGA CAPITAL FUNDING, INC.

Non-QM CES (Closed End Second)

			Primary Home				2nd Home				Investment			
Loan Amount	Max DTI %	Credit Score	Full Doc CLTV	Alt-Doc Bank Stmts /1099 CLTV	Alt-Doc WVOE CLTV	Alt-Doc P&L CLTV	Full Doc CLTV	Alt-Doc Bank Stmts /1099 WVOE CLTV	Alt-Doc WVOE CLTV	Alt-Doc P&L CLTV	Full Doc CLTV	Alt-Doc Bank Stmts /1099 CLTV	Alt-Doc WVOE CLTV	Alt-Doc P&L CLTV
$100,000 To $350,000	50	720	70%	70%	70%	70%	70%	70%	70%	70%	65%	65%	65%	65%
		700	70%	70%	70%	65%	70%	70%	70%	65%	65%	65%	65%	65%
		680	70%	70%	65%	60%	70%	70%	65%	60%	65%	65%	65%	60%
		660	70%	65%	60%	55%	70%	60%	60%	55%	65%	60%	60%	55%
$350,001 To $400,000	50	720	70%	70%	70%	65%	70%	70%	70%	65%	65%	65%	65%	65%
		700	70%	70%	65%	60%	70%	70%	65%	60%	65%	65%	65%	60%
		680	70%	65%	60%	55%	70%	65%	60%	55%	65%	65%	60%	55%
		660	65%	55%	55%	50%	65%	55%	55%	50%	65%	55%	55%	50%

1. Interest only senior liens are acceptable when qualified at a maximum DTI of 45%.
2. Declining markets maximum 65% CLTV (Primary), 60% CLTV (2nd) & 55% CLTV (Investment)
3. 2-4 unit - Max 65% CLTV (Primary)
   Condo (warrantable) - Max 65% CLTV (Primary)
   Florida Condo project – FNMA approved projects within the last 18 months only.
4. Combined loan amount

Max. combined Lien	$3.5M	$4M	$5M
Max. CLTV	70%	65%	50%

NON-QM CES PROGRAM AND REQUIREMENT	
Program Overview	• Stand-alone and in combination with new first liens (piggy-back). When used in combination with a new first mortgage, the income documentation used for qualifying must be the same for both liens. • This is designed for primary, second home and investment borrowers. For both QM and Non-QM transactions, with flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles while utilizing standard and alternative document types. On piggy-back transactions, the income documentation type for the CES must match the requirements of the 1st lien approval. o Full Doc 1 or 2 Yrs: Standard FNMA Documentation o Alt-Doc: Bank Statements/P&L/1099/WVOE
Underwriting Criteria	The Guidelines are intended to reference and supplement the Fannie Mae Seller Guide. For specific information concerning qualification requirements that are not referenced in this document, the Originators should refer to the Fannie Mae Seller Guide. For specific loan characteristics and eligibility requirements related to LTV, FICO, DTI, etc., refer to the MCFI Matrix. All

<table>
<tr><td></td><td>loans must meet the criteria of the currently published Guidelines and Matrix as of the loan application date.</td></tr>
<tr><td>Eligible Product</td><td>• Fully Amortizing Fixed Rate
o Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
o 10, 15, 20, 30-year fixed rate.</td></tr>
<tr><td>Max. Combined Lien Balance</td><td>
<table>
<tr><td>Max. combined Lien</td><td>$3.5M</td><td>$4M</td><td>$5M</td></tr>
<tr><td>Max. CLTV</td><td>70%</td><td>65%</td><td>50%</td></tr>
</table>
</td></tr>
<tr><td>Ineligible Senior Liens</td><td>A copy of the most current 1st mortgage statement is required to determine eligibility. Statement date to be within 90 days of Note date. Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.
• Loans in active forbearance or deferment. Deferred balances from modifications seasoned greater than 12 months may remain open. If seasoned less than or equal to 12 months, deferred balance must be paid through closing. Senior lien must be out of forbearance at time of application in order to be eligible.
• Loans with negative amortization.
• Reverse mortgages.
• Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.
• Mortgages not reporting on credit report
• Private Party.</td></tr>
<tr><td>Interest Only Senior Liens</td><td>Interest only senior liens are acceptable when qualified at a maximum DTI of 45%. Qualify I/O on fully amortized payment on the remaining term after the I/O period.
1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.</td></tr>
<tr><td>Program Codes</td><td>
<table>
<tr><th>Occupancy</th><th>Lien Type</th><th>Code</th><th>Term</th><th>Amortization</th></tr>
<tr><td rowspan="8">Primary/2nd</td><td rowspan="4">Piggyback</td><td>2NDP10-OO</td><td>10yr</td><td>Full</td></tr>
<tr><td>2NDP15-OO</td><td>15yr</td><td>Full</td></tr>
<tr><td>2NDP20-OO</td><td>20yr</td><td>Full</td></tr>
<tr><td>2NDP30-OO</td><td>30yr</td><td>Full</td></tr>
<tr><td rowspan="4">Standalone</td><td>2NDS10-OO</td><td>10yr</td><td>Full</td></tr>
<tr><td>2NDS15-OO</td><td>15yr</td><td>Full</td></tr>
<tr><td>2NDS20-OO</td><td>20yr</td><td>Full</td></tr>
<tr><td>2NDS30-OO</td><td>30yr</td><td>Full</td></tr>
<tr><th>Occupancy</th><th>Lien Type</th><th>Code</th><th>Term</th><th>Amortization</th></tr>
<tr><td rowspan="8">Investment</td><td rowspan="4">Piggyback</td><td>2NDP10-NOO</td><td>10yr</td><td>Full</td></tr>
<tr><td>2NDP15-NOO</td><td>15yr</td><td>Full</td></tr>
<tr><td>2NDP20-NOO</td><td>20yr</td><td>Full</td></tr>
<tr><td>2NDP30-NOO</td><td>30yr</td><td>Full</td></tr>
<tr><td rowspan="4">Standalone</td><td>2NDS10-NOO</td><td>10yr</td><td>Full</td></tr>
<tr><td>2NDS15-NOO</td><td>15yr</td><td>Full</td></tr>
<tr><td>2NDS20-NOO</td><td>20yr</td><td>Full</td></tr>
<tr><td>2NDS30-NOO</td><td>30yr</td><td>Full</td></tr>
</table>
</td></tr>
</table>

LOS Doc Code Mapping	<table><tr><th>Doc Type</th><th>LOS Doc Type</th></tr><tr><td>Full Doc / 1yr Tax returns</td><td>Full Doc, 1 Yr. Tax Returns</td></tr><tr><td>12 Mo Bank Statements</td><td>12 Mo. Business Bank Statements</td></tr><tr><td>CPA Prepared P&L</td><td>12 Mo. P&L + 2 Mo. Bank Stmts</td></tr><tr><td>VOE</td><td>VOE</td></tr></table>
Age of Documents from Note Date	Age of documents from Note Date. Credit Documents: 120 Days Income Documents: 90 Days Asset Documents: 90 Days New Appraisal: 120 Days. With Re-Certification of Value: 365 Days (A recert of value still required after the appraisal dated 120 days) Title Report: 120 Days
Compliance	• HPML loans are permitted and subject to complying with all state regulatory requirements. • No Section 32 or state High Cost • Loans must comply with all applicable federal and state regulations
Prepayment Penalty	None
Seasoning: Property Listing	Properties that have been on the market within six months of the application date are ineligible.
Seasoning: Ownership	Properties owned less than six (6) months ineligible. Seasoning is not required for properties that are inherited or legally acquired through a divorce, separation, or dissolution of a domestic partnership.
State and Federal High-Cost Loans	Not eligible.
Interest Credit	Loans closed within the first ten (10) days of the month may reflect interest credit to the borrower.
Assumability	Fixed Rate Notes are not assumable.
Power of Attorney	Closed-End Second loans utilizing a Power of Attorney (POA) are not eligible.

BORROWER ELIGIBILITY	
Eligible Borrowers	• US citizen Eligible without guideline restrictions. • Permanent resident alien Eligible without guideline restrictions. A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis. Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria: • I-551: Permanent Resident Card (Green Card) issued 10 years that has not expired.

	• I-551: Conditional Permanent Resident Card (Green Card) issued for 2 years, that has an expiration date and is accompanied by a copy of USCIS form I-751 requesting removal of the conditions. • Un-expired Foreign Passport with an un-expired stamp reading as follows: “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yyyy. Employment Authorized.” • Non-Permanent resident alien Eligible without guideline restrictions. All borrowers signing the mortgage note must have a valid Social Security Number. A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Valid visa and passport required. Legal Status Documentation: • Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA • Visa must be current. If the visa expires within six (6) months of the loan closing date, additional documentation is required. Document that extension steps and fees paid as shown by the USCIS website. • When applicable, valid employment authorization doc (EAD) required for US employment if not sponsored by current employer. • Ineligible borrowers The following borrowers are ineligible: • Irrevocable Trust • Land Trust • Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction • Any material parties (company or individual) to transaction listed on HUD’s Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list. • DACA & Asylum applicants. • Borrowers without a valid SSN. • Non-occupant Co-borrowers. • Foreign Nationals.
First Time Home Buyer	A First Time Home Buyer as a borrower who has no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the subject property. A First Time Home Buyer is required to have a documented 0x30x12 month housing history. For Piggyback loans, a First Time Home Buyer’s housing history defaults to the 1st lien requirements.

TRANSACTION TYPE	

Eligible Transactions	• Purchase
	  ○ Piggy-Back Purchase
	  Combined loan with a new 1st mortgage for the purchase of a Primary, Second Home or investor property is allowed.
	  When the product is combined with a new 1st mortgage in a purchase transaction, the required income and asset documentation will follow the AUS Recommendations and/or the 1st mortgage loan approval.
	  The following credit requirements will default to the AUS Recommendation and/or the 1st loan approval:
	  ▪ Housing history limit of 0x30x12 can be waived if allowed by 1st loan approval.
	  ▪ FTHB overlays can be waived if allowed by 1st loan approval.
	  ▪ Minimum tradelines requirements are waived when the 1st lien has an AUS Approve/Eligible or Approve/Ineligible Recommendation.
	  A copy of the appraisal and original pictures and any secondary valuation (if applicable) used for the 1st mortgage is required for the file. Appraisal waivers not accepted.
	• Rate & Term - Although the transaction is classified as rate-and-term, the cash-out seasoning requirements outlined below also apply.
	• Cash-out
	  ○ Seasoning - Properties owned over 6 months, no restrictions. Property owned less than 6 months are ineligible. See 'Seasoning: Ownership' section for exceptions to cash-out seasoning.
	  ○ Stand-alone Cash-out
	  Stand-alone loans are available for cash-out on Primary, Second Home or investor property. A letter of explanation regarding the use of loan funds must be provided for cash-out refinance transactions.
	  ○ Prior Cash-out Refinancing Seasoning
	  Any previous cash-out refinance transaction, either the 1st or a 2nd lien, within the prior six (6) months limits the maximum CLTV to 65%(Primary), 55% (2nd Home) & 50%(Investment).

Non-Arm's Length	Non-arm's length transactions are ineligible.
CREDIT	
Credit Report	• A credit report is required for every borrower. All applicants must have a valid social security number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility. • Borrower explanations are to be provided for any Disputed Tradelines with derogatory information reported in the last two years. • For borrowers who have a security freeze on their credit, the security freeze must be removed and credit repulled.
Credit Inquiries	For all inquiries within the most recent 90 days of the credit report date, a signed letter of explanation from the borrower or creditor is required to determine whether additional credit was granted as a result of the borrower's request. If new credit was extended, borrower must provide documentation on the current balance and payment; based on the verification of all new debt/liabilities, the borrower should be qualified with the additional monthly payment. If no credit was extended, borrower must state the purpose of the inquiry.
Housing History	• 0 x 30days x 12 • Borrowers must have satisfactory consecutive 12-month mortgage and/or rent payment history in the three (3) years prior to loan application. All files must be documented with one of the following:

	○ Purchase - 12-month housing history consisting of mortgage reported on credit or VOR from management company. Combination of mortgage and rent history covering 12 months acceptable. ○ Cash-out - 6 months current senior lien reporting on credit report, OR one of the following: ▪ VOM from an institutional lender. ▪ Legally inherited property supported by cancelled checks to senior lien (It should cover the time owned by the borrower after the property was inherited). **Note:** Mortgage payments not reflected on the credit report must be documented by a written VOM or similar documentation. With private parties, it should be in the form of cancelled checks or bank statements covering the required period. See "Ineligible senior liens" for the restrictions.
Credit Scores	• The Representative Credit Score is to be used for the Credit Decision. A valid score requires one (1) score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable. • A borrowers' representative credit score is the lower of two (2) scores or the middle of three (3) scores. • For loans with multiple borrowers: The occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the lower representative score of all borrowers is to be used. Minimum credit score for co-borrowers is 500.
Tradelines	• Each borrower must meet the minimum tradeline requirements listed below: ○ At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months. • Valid tradelines have the following characteristics: ○ The credit line must be reflected in the borrower's credit report. ○ The account must have activity in the last 12 months but may be open or closed. ○ Student loans may be counted as tradelines as long as they are in repayment and are not deferred. ○ An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline (VOR from a professional management company). • The following are not acceptable to be counted as valid tradelines: ○ Liabilities in deferment status ○ Accounts discharged through bankruptcy ○ Authorized user accounts ○ Charge-offs ○ Collection accounts ○ Foreclosures ○ Deed-in-lieu foreclosures ○ Short sales ○ Pre-foreclosure sales • Non-traditional credit ineligible.
Credit Event Seasoning	No foreclosure actions (NOI, NOD), short-sales, deed in lieu, bankruptcies in last 48 months. No multiple credit/housing events (FC, BK, SS/DIL) in the last four (4) years.
Consumer Credit	• Consumer Credit History Applicants with current credit delinquencies are ineligible.

	30-day charge accounts (e.g. Amex) can remain open if borrower has sufficient funds in reserve (cash-out funds included) to cover the balance. • Consumer Credit Charge-offs and Collections Open charge-offs or collections <=$1,000 per occurrence are acceptable. Open medical collections <=$1,000 per occurrence are acceptable. • Consumer Credit Counseling Services Borrowers enrolled in credit counseling are ineligible. • Judgement or Liens All judgements, garnishments and all outstanding liens must be paid off prior to or at loan closing. • Income Tax Liens All income tax liens (federal, state, local) must be paid off prior to or at loan closing.
Credit Report Update	MCFI is to confirm there are no new or higher debt obligations for the borrower by using a gap credit report, soft-pull or undisclosed credit monitoring (UDM) report. This type of report is required if Note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report, soft-pull or UDM report is to be dated within 30 days of the Note date. When a gap report, soft-pull or UDM report is required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated. Based on the recalculated DTI, the mortgage loan would not be required to be re-underwritten if both of the following applies: • The updated DTI ratio has not increased by 3% or higher, AND • The final updated DTI does not exceed 45%
Obligations/Liabilities not appearing on Credit Report	• Housing and Mortgage Related Obligations All properties owned by the borrower must be fully documented. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract. The monthly mortgage payment (PITIA) used for qualification consists of the following: ○ Principal and Interest ○ Hazard and flood and insurance premiums ○ Real Estate Taxes ○ Special Assessments ○ Association Dues ○ Any subordinate financing payments. ○ Premiums and similar charges that are required by the creditor (i.e., mortgage insurance) • Current Debt Obligations, Child Support, Alimony or Maintenance Obligations. Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's DTI ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the borrower is ineligible,

INCOME DOCUMENTATION	
Income Analysis	• For stand-alone loans, the income documentation and calculation per FNMA guides with 2 years verification unless otherwise noted by the program document requirements. • For Piggy-back loans, the income documentation and calculation follow 1st lien approval.

Employment and Income Verification	• For stand-alone loans, most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by specific program requirements. • Most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by specific program requirements. • A two-year employment history is required for the income to be considered stable and used for qualifying. • For piggy-back loans, documentation to follow 1st lien approval.
Debt to Income Ratio / DTI	• Standard Debt-to-Income ("DTI") maximums as per Matrix. • Interest only senior liens are acceptable when qualified at a maximum DTI of 45%. Qualify I/O on fully-amortized payment on the remaining term after the I/O period. • 1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.
Documentation Options	• For stand-alone loans, full income documentation for wage earners and self-employed borrowers. Bank statement documentation for self-employed borrowers. • For piggy-back loans, follow 1st lien documentation requirements. Documentation used for the CES must be the same as used for the 1st lien.
Full Income Documentation	**Full Doc for Stand-Alone** • **Self-employed borrowers** o 1 or 2 years tax returns (business and personal) including all schedules. o Current YTD P&L (borrower prepared acceptable, borrower required to sign.) or 3 months bank statements. o Qualifying income based on tax returns. P&L or bank statement to support tax return income. o 1040 tax transcripts required. • **Wage/Salaried borrowers** o W-2s for most recent 1 or 2-years and current paystubs reflecting 30 days earnings. o W-2 transcripts. • **Other Requirements** o A verbal VOE from each employer within 10-days of the note date for wage and salaried employees. o For self-employed verify existence of business within 30-days of the note date with one of the following: • Letter from a business tax professional. • On-line verification from regulatory agency or licensing bureau. • Other Miscellaneous Income o Treatment of miscellaneous income sources follow FNMA guidelines. **Full Doc for Piggy-Back** • Documentation requirements to follow 1st lien requirements.
Alternative Income Documentation: 12 months Bank Statements	**1. Alt-Doc: 12 months Bank Statements** • For self-employed borrowers. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income. • The Primary Borrower (greater than 50% of income) must be self-employed for at least 2 years (25% or greater business ownership) to qualify for this program. If there is less than 2 years but more than 1 year of self-employment with the same business, the borrower may qualify if they can evidence at least:

- 2 years of previous employment in the same industry/line-of-work of the current business,

OR

- 1 year previous employment in the same industry/line-of-work and 1 year of formal education or training in the same industry/line-of-work.

- No 4506-C/tax transcripts/Tax Returns (4506-C required for salaried co-borrowers)

2. Alt-Doc: Bank Statement Restrictions

Excessive NSFs on the bank statements may cause the loan to be ineligible. Business bank statements must be operating account(s) reflecting normal business expenses.

- If the bank account has overdraft protection that is linked to another account with the same financial institution, an overdraft would not be considered as an NSF as long as the account does not reflect a negative balance at day's end & shows the transfer from the linked account.

3. Alt-Doc: Bank Statement Documentation

- A borrower with 25% or greater ownership interest in a business is considered self-employed and must be evaluated as a self-employed borrower.
- The borrower must document two years current continuous self-employment with business license or statement from corporate accountant/CPA confirming the same.
  - Other documentation from third parties may be acceptable on a case-by-case basis (e.g., letter from an attorney).
  - Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
  - In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.
- Real estate investors whose sole or primary source of qualifying income is derived from owned rental properties may qualify without requirement of self-employment verification.

4. Alt-Doc: Bank Statement Income Analysis

Bank statements are used to calculate and show consistency of income for the self-employed borrower. When using 12 months of bank statements, no P&L is required.

Personal & Business Bank Statements Combined

- If personal and business bank activity are combined in one bank account, borrower is to provide the most recent 12 months consecutive bank statements from the same account.
- The bank statements are analyzed per Business Bank Statement Analysis guidance to determine qualifying income.
- **Standard expense factor applies:**
  - 50% expense factor, or
  - Expense factor based on the below Expense Factor Table

Expense Factor Table			
Business Type	**Number of Employees**		
Service Business	**0**	**1-5**	**Greater than 5**
e.g. Accounting, Consulting,	15%	30%	50%

Legal, Financial Planning, Insurance, Therapy			
Product Business	**0**	**1-5**	**Greater than 5**
e.g. Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction	25%	50%	85%

- The underwriter may use an expense factor higher than the standard factor when the analysis of the bank statements reflect higher expenses
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard expense factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
  - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
    - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such a statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation.
  - The expense factor per the CPA/CTEC/EA produced statement must be reasonable.
  - The CPA or tax preparer must be US-based and have their primary business operations within the United States; CPA's/tax preparers who reside and/or have their primary business operations outside of the United States are not eligible.
- A CPA/CTEC/EA-produced Profit and Loss (P&L) statement, covering the same period as the bank statements (12 or 24 months) can be provided as long as the following applies:
  - CPA/CTEC/EA who prepared the P&L acknowledges in writing that they have prepared or reviewed the P&L
    - PTIN acceptable if documented as employed by a 3rd party tax preparation service.
  - The accompanying statement does not have unacceptable disclaimer or exculpatory language regarding its preparation
  - The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Personal & Business Bank Statements Separated

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
  - No expense factor.

- Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Business Bank Statements Only

- If only using business bank statements, the borrower is to provide the most recent 12 months consecutive business bank statements.
- **Standard expense factor applies:**
  - 50% expense factor, or
  - Expense factor based on the below Expense Factor Table

Expense Factor Table			
Business Type	**Number of Employees**		
Service Business	**0**	**1-5**	**Greater than 5**
e.g. Accounting, Consulting, Legal, Financial Planning, Insurance, Therapy	15%	30%	50%
Product Business	**0**	**1-5**	**Greater than 5**
e.g. Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction	25%	50%	85%

- The underwriter may use an expense factor higher than the standard factor when the analysis of the bank statements reflect higher expenses.
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard factor), then the expense factor per a CPA/CTEC/EA letter may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
  - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
    - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such a statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation.
  - The expense factor per the CPA/CTEC/EA produced statement must be reasonable.
  - The CPA or tax preparer must be US-based and have their primary business operations within the United States; CPA's/tax preparers who reside and/or have their primary business operations outside of the United States are not eligible.
- A CPA/CTEC/EA-produced Profit and Loss (P&L) statement, covering the same period as the bank statements (12 or 24 months) can be provided as long as the following applies:
  - CPA/CTEC/EA who prepared the P&L acknowledges in writing that they have prepared or reviewed the P&L

        - PTIN acceptable if documented as employed by a 3rd party tax preparation service.
    - The accompanying statement does not have unacceptable disclaimer or exculpatory language regarding its preparation
    - The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L

- The bank statements should show a trend of ending balances that are stable over the 12 or 24-month period.
    - Large deposits inconsistent with history must be documented as business income.
    - Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

5. Business Bank Statement Income Analysis

Unlike a paystub, W2 or tax return, bank statements do not contain the same details from one bank to another. All bank statements will contain the same general information such as deposits, debits, balances etc. The information that will vary widely will be the details shown for each debit or deposit source. Some accounts will contain copies of checks written while most will not.

The followings are to determine a supportable qualifying income:

- Research the business type – The type of business must represent the expected deposits and expenses for the business both in dollar amounts and frequency in the statements. All activities must support and address(es) of the business to ensure the location could support the type and size of business reported if applicable.
- Categorize the type of bank statements being reviewed as either combined personal and business or business only. Statements cannot be categorized based solely on the account "name". The activity in the details are to be used to determine the account type.
- Review the individual electronic and check debit activity to determine that the expense ratio being applied is accurate and supported by the statements.
- When the bank statement debit activity reflects expenses higher than the standard expense ratios, the UW is to analyze the monthly debits to determine the representative expenses for the business.
- The UW will have to recognize when the bank statements provided are insufficient to determine a supportable qualifying income. Often additional statements or "other" accounts may be required to provide a complete income picture.

Personal and business bank statements combined: These are accounts that are typically used by small business owners for both business and personal use. The account activity will show deposits from business activity as well as all other sources of income (wages from spouse, second job, SSI, rents, etc.).

Business Bank Statement: These are accounts that are used solely for business revenue and expenses. The account will typically show revenue and expense activity for only the business. Occasionally the account could show deposits or liability payments that are not business related.

- An acceptable business account will reflect business revenue deposits and business expense payments. An account showing deposits and only transfers to other accounts is not sufficient to analyze the business expenses and determine qualifying income.

	• Trust accounts or Client Trust accounts are not acceptable documentation for determining qualifying income. The Operating account for the business must be used to accurately analyze business expenses. **Initial Deposit Review:** Using an income worksheet the UW is to document the total deposits from the monthly statement. The UW will review the individual deposits on the statement and itemize deposits that are not allowable (unknown wires, transfers from other accounts, refunds, unusually large deposits). Deposits from other income sources, SSI, W2 earnings are to be backed out and documented with the appropriate documents. Gross rents from any REOs are to be backed out of the deposit totals. • From statement to statement the UW can recognize a deposit pattern of regular dollar amounts, frequency and source. From this pattern and the UW knowledge of business type, the threshold for unusual deposit amounts will be apparent. Additional documentation of unusual deposits will be required to be included as business revenue. • UW to research deposits/wires that the source is identified to insure the deposit is business revenue. The UW will be able to identify deposits that are from business financing sources and not to be included as revenue. • Deposits that are inconsistent in type, size or source are to be noted by UW for further review after several months have been completed. The UW can often determine a deposit as acceptable or not after multiple months of activity for deposits and debits are reviewed. **Review of Debits:** The UW is to review each statement debit activity for the purpose of supporting the business expense factor used to determine qualifying income. Subject to the information provided for each debit, the UW will be able to determine the accuracy of the expense factor. • Debits from the account are to be reviewed for consistency with the business type and expense factor applied or provided in the case of a CPA P&L. A business with a 40% expense factor per the P&L will not have 60% of the monthly deposits paid out to 3rd parties over a 12 month period. The UW will be able to support the expense factor provided or determine the accurate expenses of the business with the review of the debit activity and checks paid. • Debits that are known personal liabilities (as per credit report) are not viewed as business operating expenses. Undisclosed liabilities that occur regularly are to be researched to determine if additional documentation is required to categorize the expense as business or personal. • Debits that are paid to the same sources that a deposit has been received from must be backed out of the deposit totals. • Debits that are reversals or adjustments to a deposit item are to be backed out of the deposit total for that statement period. **Review of Checks Paid:** All bank statements will itemize checks paid during the statement period. Some statements will also include copies of each check. • Statements without copies of checks – With a list of the checks written during the statement period, the information an UW can capture is limited. The approach with checks written from a business account is to treat them as business expenses unless documented as otherwise by a copy of the cancelled check. • Statements with copies of checks – With the copies of cancelled checks the UW will have clarity as to whether the payment is an expense of the business. The payee name, memo line and the endorsement of the check will provide information that can assist the UWs review and assessment of the business expenses.
Alt-Doc: 1099	This program is designed for borrowers who are paid on a 1099 basis and would benefit from alternative loan qualification methods. Most recent 1-year

<table>
<tr><td></td><td>IRS Form 1099 may be used as an alternative to tax returns to document the borrower's income.

Alt-Doc: 1099 restrictions
• Borrower cannot have any ownership interest in the company(s) providing 1099 income
• 1099 statements must be payable to the individual borrower(s). 1099 statements payable to a business entity owned by the borrower(s) are not eligible.
Alt-Doc: 1099 Requirements and documentation
• The following is required:
o Most recent 1 or 2-year IRS Form 1099(s) from employer(s). The borrower must have 2-year history of 1099 employment.
o Current paystub or bank statement deposit for each 1099 source utilized for qualification (e.g. if borrower provided 1099 forms from five (5) separate sources, then a separate paystub/bank statement deposit must be provided from each of the five (5) 1099 sources to support current receipt)
o Third party documentation (CPA/CTEC/EA) supporting a 2-year employment history when 1-year 1099 used.
o Tax transcripts are required for each 1099 provided
o 1099 Income that is not supported by documentation of current receipt cannot be used for qualification.
o 1099 income minus 10% expense factor / 12 months = Qualifying Income.
See below example for qualification of 1099 income, with a borrower obtaining 1099 income from two (2) different sources:
<table><tr><th>Borrower's 1099 Sources</th><th>1099 Income</th></tr><tr><td>1099 Form #1</td><td>$25,000</td></tr><tr><td>1099 Form #2</td><td>$35,000</td></tr><tr><td>Total 1099 income</td><td>$60,000</td></tr><tr><td>Minus 10% Expense factor</td><td>($6,000)</td></tr><tr><td>1099 Income less Expense Factor</td><td>$54,000</td></tr><tr><td>1099 Income less Expense Factor/12 months</td><td>$54,000/12 mos.</td></tr><tr><td>Qualifying Income</td><td>$4,500/month</td></tr></table></td></tr>
<tr><td>Alt-Doc: WVOE</td><td>• This income documentation program is not available to borrowers employed by a family-owned/managed business.
• Acceptable documentation forms.
o FNMA Form 1005 plus 2 months personal bank statements
o Equifax (The Work Number)
o Finicity (TXVerify)
o Any other acceptable online income data vendor
• Form 1005 must be fully completed (current gross pay, YTD earnings, past 2 years earnings) by an authorized company representative (Owner, Officer, HR).
• When Form 1005 is provided as specified above, 2 months personal bank statements supporting WVOE employment wages must be provided.</td></tr>
<tr><td>Alt-Doc: P&L Only</td><td>• Alt-Doc: P&L Only
This program is designed for borrowers who are self-employed and would benefit from alternative loan qualification methods. A CPA/CTEC/EA completed and signed P&L may be used as an alternative to tax returns to document a self-employed borrower's income. No other income documentation types can be combined with the P&L for the self-employed borrower.

No 4506-C/tax transcripts/Tax Returns</td></tr>
</table>

	• P&L Only Qualifying Income The borrower's qualifying income will be based on the net income as shown on the P&L statement (multiplied by the borrower's ownership percentage). • P&L Only Requirements and Documentations All of the following are required: ○ CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12-month period. ▪ PTIN's are not acceptable to sign/prepare P&L statements. ▪ The CPA or tax preparer must be US-based and have their primary business operations within the United States; CPA's/tax preparers who reside and/or have their primary business operations outside of the United States are not eligible. ○ A signed letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone number, and license number is required with the following information: ▪ CPA/CTEC/EA confirms they have prepared and/or reviewed the most recent year's business tax return filing; and, ▪ The business name, borrower's name, and percentage of business ownership by the borrower. ○ 2 months of recent Business Bank statements must be provided to support the P&L gross income. The average bank statement deposits must be no lower than 85% of the monthly average of gross income reflected by the CPA P&L. ○ Evidence the business has been in operation for twelve (12) months or greater. ○ Evidence of business ownership percentage if the business is a corporate entity and the P&L covers the business as a whole (not just the borrower's share of the business). ▪ Borrower must have at least 25% ownership of the business. ▪ Acceptable forms of documentation include a business license, signed written statement from the CPA/CTEC/EA, an Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or a Business Certificate filed with a governmental agency. ▪ Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership. ○ Third-party documentation must be provided from which the borrower's ownership percentage can be determined. Documents which are not required to list all owners do not meet this requirement. ○ Income from co-borrowers who are W2 wage earners is to be documented with the most recent W2 and paystub. (Must be verified by W-2 transcripts.) P&L statements not meeting the aforementioned requirements, or which are suspicious in nature, may require additional verification.
Rental Income	Full income doc. program • Follow FNMA guidelines. • ADU rental income is allowed and subject to the following restrictions: ○ Full income doc only ○ Must provide the most recent tax returns with Sch E ADU rental income reported ○ Qualifying income must be derived from Sch E.

	○ The lease agreement and one month proof of rent deposit are required. Alt-Doc: Bank statements/1099/WVOE income doc programs. • Rental income used for qualification must be documented with lease(s). Use 75% of lease rent amount minus PITIA for net rental income. • An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is allowed. • Supporting documentation is required to validate 2-month rent deposits. • On non-subject investment properties in which the borrower holds title with a third party (non-spouse), the percentage of the borrower's ownership interest must be multiplied by 75% of the gross income to calculate the borrower's rental income on said property. • Rental income with a term of less than 30 days is not acceptable. (No short-term rental income.) • All departing property rental income will be based on FNMA guidelines. • All rental income must be supported by 3rd party verification such as Zillow.com or Rentometer.com. (When the subject rental income is being used to qualify, a subject market rent survey (1007, 1025) is required.)

ASSETS	
Documentation	For purchase files, documentation of sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff are required and follow 1st lien approval when applicable FNMA guidelines used to verify funds. All documentation to follow AUS requirements when applicable.

LIABILITIES	
Contingent Liabilities/Debts paid by Others	• Not allowed. All borrower's obligations must be included in the qualifying DTI.

PROPERTY ELIGIBILITY	
Appraisals	• **Primary/2nd Homes/Investment Property** ○ Full appraisal (1004, 1025, 1073) ○ Declining markets – Primary 65% CLTV 2nd Home Max. 60% CLTV Investment Property Max. 55% CLTV • Transfer appraisal report is allowed.
Minimum Property Standards	• Minimum property standards include but may not be limited to: ○ 600 square feet. ○ Property constructed for year-round use. ○ Permanently affixed continuous heat source ○ Maximum deferred maintenance cannot exceed $2,000. ○ No health or safety issues both internal or external • Eligible Property Types ○ SFR, PUD, Townhome ○ 2-4 Units - Max 65% CLTV (Primary) ○ Condos-Warrantable - Max 65% CLTV (Primary)

	○ Rural – Primary Home Only. Maximum 5 acres. Max CLTV 65%. No Cash-out is allowed. Note: Properties with multiple parcels must default to Fannie Mae criteria. • Accessory dwelling Units Properties with an accessory dwelling unit(s) (ADU) are considered eligible subject to the following: ○ Subject property appraisal must reflect that the zoning compliance is legal and ADU is permitted, ○ The number of ADU's allowed based on property type is as follows: ▪ unit property with up to three (3) ADU's ▪ 2-unit property with up to two (2) ADU's ▪ 3-unit property with up to one (1) ADU ▪ ADU's are not allowed on a 4-unit property ○ The appraisal must include at least two (2) sales comparables with a similar number of accessory units ▪ If rental income from the ADU is being received, the Form 1007 must include at least one (1) rental comparable with a similar number of accessory units • Acreage Limitations ○ Maximum 5 acres
State Ineligibility	Texas 50(a)(6) Equity cash-out loans are ineligible. All MCFI approved states, except Colorado (If max interest rate exceeds 12%), Maryland (This restriction applies to the subject property only if it is located in Baltimore City, MD.), Massachusetts. Michigan, Mississippi, New Jersey (Bergen County and Essex County only), Pennsylvania (Investment property in Philadelphia County only), South Dakota, Washington.
Ineligible Properties	• Manufactured/Mobile Homes • Log Homes • Condotels • Condominium projects with registration services or restrictions on owner's ability to occupy. • Cooperatives • Unique Properties • Mixed Use Properties • Builder Model Leaseback • Room/Boarding Houses • Agricultural or Commercial Zoned Properties • Fractional Ownership/Timeshares • Assisted Living/Continuing Care Facilities • Mandatory Country Club Memberships • Zoning Violations • Properties under Construction • Working/Hobby Farms • C5 or C6 Property Condition Grades • Land Trust • Live/Work Condos • Leasehold properties • Geodesic Domes • Hawaii properties located in lava zones 1 and/or 2 • Houseboats • Homes on Native American Land (Reservations) • Non-warrantable condo • Properties used for the cultivation, distribution, manufacture, or sale of Marijuana. • Rural properties – Investment & 2nd home • Theme Park Resort Properties • Deed-restricted properties

	• Income producing properties with acreage • Multiple dwellings on single lot (1 legal ADU acceptable on SFR) • Multiple parcels that do not meet Fannie Mae criteria
Solar Liens	MCFI to determine the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain the lien position of the mortgage. This includes, but is not limited to, the review of power purchase leases/agreements, UCC filings, credit report, preliminary title reports and other applicable documents. • Leased Solar Panels or Panels Under a Power Purchase Agreement ○ Requirements: ▪ Copy of the lease or power purchase agreement ▪ Power Purchase Agreement Liability: - Payment may be excluded from DTI when payment is based on energy produced only. If not the case, payments must be included as part of the DTI calculation ▪ Lease Liability - Lease payments must be included in the DTI calculation ▪ The value of the solar panels cannot be included in the appraised value ▪ The lease liability should not be included as part of the CLTV calculation ▪ UCC Filing: - Only the solar equipment may be mentioned as collateral for the UCC filing. If so, the UCC filing may remain on title. - Title must provide a supplement that confirms the lien position of our new mortgage ahead of the UCC or financing statement filing ▪ The property must maintain access to an alternate source of electric power that meets local community standards ▪ The owner of the solar panels cannot be included as a loss payee on the property hazard insurance policy ▪ Since the borrower does not own the solar panels, any damage resulting from installation and malfunction is the responsibility of the equipment owner • Purchased Solar Panels ○ Requirements: ▪ UCC Fixture Filing - Copy of purchase agreement. - UCC fixture filing, credit report & preliminary title report - Appraiser may consider solar panels as part of the value of the property - Financing balance must be included as part of the CLTV. Max CLTV as shown on the matrix cannot be exceeded - Monthly finance payments must be included in DTI calculation - UCC fixture filing must be subordinated or UCC must be terminated ▪ Financing Statement on Title - Copy of purchase agreement. - Credit report & preliminary title report - Appraiser may not consider the solar panels as part of the value of the property - Financing balance may not be included as part of the CLTV - Monthly finance payments must be included in the DTI calculation - Title supplement must be obtained confirming our lien position • PACE/HERO – Existing PACE/HERO financing must be paid-in-full prior to or at closing.
Title Vesting and Ownership	Ownership must be fee simple. Acceptable forms of vesting are: • Individuals • Joint tenants • Tenants in Common • Inter Vivos Revocable Trust

	○ Trust must be established by one or more natural persons, solely or jointly. ○ The primary beneficiary of the trust must be the individual(s) who is establishing the trust. ○ Trust must be in the borrower's name. ○ Trust must state that the borrower(s) have a right to revoke the Trust during their lifetimes. ○ The income and assets of at least one borrower of the individuals establishing the Trust must be used to qualify for the mortgage. ○ Trust must comply with all applicable state and local laws and regulations. ○ Trustee must have the power to mortgage the property. ○ Trust must become effective during the lifetime of the person establishing the trust. Provide copy of Trust Agreement or Trust Certificate (where allowed by law) reviewed and approved by Title company. Title must not contain any title exceptions and offer full title protection without exception to the trust.
Limitations on Financed Properties	• The maximum number of financed properties to any one borrower is limited to twenty (20) residential properties including subject property. • Commercial properties and residential > 5-units excluded from calculation.
Disaster Area	• Subject properties that have been adversely affected by disaster events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. The following guidelines apply to properties located in FEMA declared disaster areas, as identified on the FEMA website at http://www.fema.gov/disasters. • In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, hurricanes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest or terrorist attacks, additional due diligence should be used to determine if the disaster guidelines should be followed. • Guidelines for disaster areas should be followed for 90 days from the disaster period end date or the date of the event, whichever is later. 1. <u>Appraisals Completed Prior to Disaster Event, or Appraisals Not Completed</u> When the appraisal was completed prior to the disaster incident, or the appraisal has not been completed, an interior and exterior inspection of the subject property is required. • Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability. • Inspection report must include photographs of front, rear and street view of the property • Any damage must be repaired and re-inspected prior to purchase. • File must contain a copy of the inspection report and evidence of inspector licensing. For flood and hurricane only disaster events, when the appraisal was completed prior to the disaster, external only DAIR allowed. An appraisal update or final inspection from the appraiser must also be obtained. • The appraiser must comment on the adverse event and certify there has been no decline in value. • Maximum deferred maintenance cannot exceed $2,000. 2. <u>Appraisals Completed After Disaster Event</u> When the inspection date of the appraisal is after the disaster event, the following requirements must be met:

	• The appraiser must comment on the adverse event and any effect on marketability or value. • Maximum deferred maintenance cannot exceed $2,000
Declining Values	Properties in which the appraiser is reporting a declining trend in values for the subject's market area are limited to a maximum 65% CLTV (Primary), 60% (2nd Home) & 55% CLTV (Investment).
Condominiums	Fannie Mae eligible condominium projects are allowed. The seller may review and approve FNMA warrantable projects. Follow the review process required by Fannie Mae for Full Project Review. FNMA CPM approval is acceptable. If the project is approved by FNMA, no additional full project review is required. Site Condos meeting the Fannie definition is eligible for single-family dwelling LTV/CLTV.
Restriction on a Florida Condo Project	• FNMA approved projects within the last 18 months only.

SENIOR LIEN DOCUMENTATION REQUIREMENTS	
Stand-Alone Closed End Second	• Current (within 90 days) first mortgage statement showing, o Current principal balance. o Fully amortized. o Term. • HOA statement (if applicable). • HOI, flood insurance (if applicable), flood cert.
Piggy-Back Second	• Concurrent close with an MCFI originated 1st lien. • Follow 1st lien income requirements. • 1st mortgage approval reflecting 2nd. • DU/LP Approve/Eligible, or LP Accept or Approve/Accept/Ineligible due to loan size or non-conforming 1st liens (if applicable). • Default to AUS Approval (If applicable), no minimum tradelines required. • Purchase agreement (if applicable). • HOA statement (if applicable). • HOI, flood insurance (if applicable), flood cert. • Closing instructions reflecting 2nd. • Full appraisal from 1st mortgage and any additional collateral evaluation
Subordination	• Not allowed. • All existing subordinate liens must be satisfied at or prior to closing, with the exception of those solar liens addressed in Section 'Solar Liens' (subject to CLTV limits referenced in the matrix).

Exhibit 1: Sample of CPA letter

September 14, 2023

ABC CPA FIRM

ADDRESS: CITY, ST ZIP CODE

XYZ LENDER

ADDRESS: CITY, ST ZIP CODE

To whom it may concern:

I have worked with borrower, John Homeowner for 5 years. Mr. Homeowner has been the founder/CEO of company, 123 Business since 2020. I have either completed or reviewed Mr. Homeowner's taxes and determined that 123 Business operates at a 35% expense factor.

Sincerely,

JANE SMITH, CPA