SIMPLE MVP

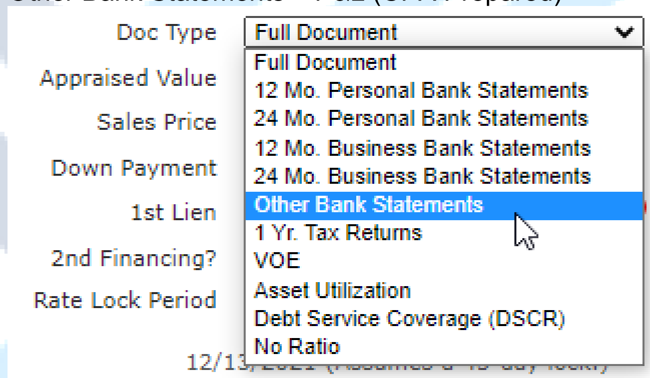
LTV/CLTV MATRIX – PRIMARY HOME[1]					
Loan Amount	Credit Score	Full Doc 1-2 Years		Bank Statements 12-24 Months, Asset Depletion, CPA P&L[2]	
		Purchase Rate & Term	Cash-Out	Purchase Rate & Term	Cash-Out
<=$1,000,000	700	85%	80%	85%[2]	80%
	680	80%	80%	80%	80%
	660	80%	75%	80%	75%
<=$1,500,000	700	85%	80%	85%[2]	80%
	680	80%	75%	80%	75%
	660	80%	75%	80%	75%
<=$2,000,000	720	85%	75%	85%[2]	75%
	700	80%	75%	80%	75%
	680	75%	70%	75%	70%
	660	75%	70%	75%	70%
<=$2,500,000	720	80%	70%	80%	70%
	700	75%	65%	75%	65%
	680	70%	65%	70%	65%
	660	70%	65%	70%	65%
<=$3,000,000	740	75%	65%	75%	65%
	720	75%	65%	75%	65%
	700	70%	65%	70%	65%

1. Florida condo project MAX LTV/CLTV=75% & FNMA approved projects within the last 18 months only.
2. CPA P&L & Asset Depletion Doc type – Max. 80% LTV/CLTV

LTV/CLTV MATRIX – SECOND HOME[1]					
Loan Amount	Credit Score	Full Doc 1-2 Years		Bank Statements 12-24 Months, Asset Depletion, CPA P&L	
		Purchase Rate & Term	Cash-Out	Purchase Rate & Term	Cash-Out
<=$1,500,000	660	80%	75%	80%	75%
<=$2,000,000	700	80%	75%	80%	75%
	680	75%	70%	75%	70%
	660	75%	70%	75%	70%
<=$2,500,000	720	80%	70%	80%	70%
	700	75%	65%	75%	65%
	680	70%	65%	70%	65%
	660	70%	65%	70%	65%
1. Florida condo project MAX LTV/CLTV=75% & FNMA approved projects within the last 18 months only.					

LTV/CLTV MATRIX – INVESTMENT HOME[1]					
Loan Amount	Credit Score	Full Doc 1-2 Years		Bank Statements 12-24 Months, Asset Depletion, CPA P&L	
		Purchase Rate & Term	Cash-Out	Purchase Rate & Term	Cash-Out
<=$1,000,000	660	80%	75%	80%	75%
<=$2,000,000	700	80%	75%	80%	75%
	680	75%	70%	75%	70%
	660	70%	65%	70%	65%
<=$2,500,000	720	75%	70%	75%	70%
	700	75%	65%	75%	65%
	680	70%	65%	70%	65%
1. Florida condo project MAX LTV/CLTV=75% & FNMA approved projects within the last 18 months only.					

SIMPLE MVP GENERAL REQUIREMENTS	
Ability to Repay / Qualified Mortgage Rule	All loans subject to Regulation Z must meet the Ability-to-Repay (ATR) Rule, whether under the non-QM ATR requirements (12 C.F.R. 1026.43(c)) or under QM Safe Harbor/Rebuttable Presumption (12 C.F.R. 1026.43(e)). MCFI is required under the general ATR standard to make a reasonable, good-faith determination before or when consummating a mortgage loan that the consumer has a reasonable ability to repay the loan. A reasonable, good-faith ATR evaluation using reliable third-party records must include the following eight (8) ATR underwriting factors: 1. Income or assets used to repay loan 2. Employment status 3. Monthly mortgage payment on the subject loan (fully indexed, fully amortizing) 4. Monthly payments for any simultaneous loans secured by the subject property 5. Monthly payments for property taxes, hazard insurance, HOA fees or ground rents

	6. Debts reported by a credit bureau or disclosed by the consumer, alimony, and child support obligations 7. Monthly DTI or residual income 8. Credit history If a topic is not addressed within these guidelines, MCFI will align with Fannie Mae (FNMA) Manual Underwriting guidelines.
Minimum FICO	660
Loan amount	• Minimum - $150,000 • Maximum - $3,000,000
Loan Terms	• 30 Year Fixed
Qualifying Payments	• 30 Year Fixed – Note rate
MEGA LOS Income Doc Type Options	• **Full Document-** 1 or 2 year Full Doc (W-2), - 1 Yr. Tax Returns- 1-2 Year Tax Returns (Self-employed) • **Alt Doc** - Other Bank Statements – P&L (CPA Prepared)  - 12-24 Mo. Personal Bank Statements - 12-24 Mo. Business Bank Statements - Asset Utilization

Program Codes

Doc Type	Code	Term	Amort type	Prepay Term
Full, Bank Statements, CPA P&L & Asset Depletion	SMVP30	30yr Fixed	Full	-
	SMVP3P30	30yr Fixed	Full	3yrs
	SMVP2P30	30yr Fixed	Full	2yrs
	SMVP1P30	30yr Fixed	Full	1yr

Prepayment Penalty – Investment Only	Prepayment penalties allowed on Non-Owner occupied properties only. ▪ Fixed 5% percent - The prepayment charge will be equal to 5% and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance ▪ ****Available only when required by state law:** - Step Down Prepay Types that do not exceed 5% and do not drop below 3% at any point during term of prepay. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%) – The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance - Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of

	the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period Prepayment Penalties are not allowed in the following states: • Alaska • Alabama • Arkansas • DC • Illinois • Kansas • Kentucky • Louisiana • Maryland • Michigan • Minnesota • New Jersey • New Mexico • Ohio • Oklahoma • Rhode Island • South Carolina • Vermont • West Virginia Prepayment Penalties are allowed in the following states with restrictions: • North Carolina: Allowed for loan amounts > $150,000 • New Jersey: Allowed only if closing in Corp only • Maine and Indiana: Allowed only if fixed rate • Prepayment penalties not allowed if property is one or two units and the loan amount is under $319,777 in PA.
Interest Only	• Not available
HPML	• Escrows for taxes and insurance will be required for 5 years. • Residual Income- Required per household size: = 1 person $1,500; 2 persons $2,500, Add $150 per additional household member • Two appraisals may be required to be delivered for flip transactions as defined by the CFPB.
Impounds	• Impounds for taxes and insurance required when LTV>80%
Escrow Holdbacks	Not allowed
Approved States	• All MCFI approved states, except Maryland, Massachusetts. Mississippi, South Dakota (Maryland loans are temporarily suspended.)
Property Type	• Single Family (attached and detached) • PUD • Warrantable Condo, established projects only - Follow FNMA Requirements New condo project is not allowed. • 2 - 4 Units
Age of the documents	• All credit doc expiration dates are measured to the Note Date, day 1 is the date of the document • Appraisal, and Prelim/Title work are valid for 120 days • Credit Report, Income, and Assets are valid for 120 days • For allowable age of tax returns see the self-employment section • YTD P&L age limit is 120 days
Max. Cash-Out Limits	• >70% LTV up to $1,000,000 allowed • <=70% LTV up to $1,500,000 allowed

	• <=50% LTV up to $3,000,000 allowed • See Asset Depletion for Max. cash out limit.
PACE / HERO Loans	• Follow FNMA • Any energy efficiency-based liens, like PACE or HERO, when paid off through loan proceeds, the transaction is treated like a rate & term. • Cannot be subordinated.
Secondary Financing	• Allowed - See LTV/CLTV grid • Junior financing can be the lender or seller provided and must meet the requirements as defined by Fannie Mae • Junior financing used for purchase or fixed 2nd seasoned for 12 months can be paid off for transaction to be considered rate & term. • If junior financing is a HELOC, total draws within the previous 12-months cannot exceed the lesser of 2% or $5,000 to be considered rate & term.
LTV Determination	• Rate & Term - use current appraised value • Cash-Out owned >= 6 months - use current appraised value • Cash-Out owned < 6 months (delayed financing) - use lesser of acquisition cost or appraised value (see delayed financing)

BORROWER ELIGIBILITY	
Eligible Borrowers	• US Citizens • Permanent resident alien. Provide one of the following ▪ Alien Registration Card I-151 (Green Card) • Alien Registration Card I-551 (Resident Alien Card/Green Card) that does not have an expiration date • Alien Registration Card I-551 (Conditional Resident Alien Card) that has an expiration date as well as a copy of the filed INS Form I-751 (petition to remove conditions) • Non-expired foreign passport that has a non-expired stamp (valid for at least three (3) years) must contain the following language: *“Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until <<Date>>. Employment authorized”* • Non-permanent Resident Alien: Standard ▪ Visa types allowed E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, L-2, NATO, O-1, R-1, TN NAFTA • Visas must be current and have at least six (6) months remaining from the close date, if less than six (6) months provide evidence that extension has been requested. • If the visa will expire within six (6) months of the loan application date, a letter from the employer stating the borrower’s continued employment and continued visa renewal sponsorship is required. Employer on the loan application must be same on the unexpired visa Non-permanent Resident Alien: Non-standard Any residency status that meets FNMA guidelines is allowed provided the requirements listed below are met. ▪ Visa or EAD must be current and have at least six (6) months remaining from the close date, if less than six (6) months provide evidence that extension has been requested ▪ If the visa or EAD will expire within six (6) months of the loan application date, a letter from the employer stating the borrower’s continued employment and continued visa renewal sponsorship is required. Employer on the loan application must be same on the unexpired visa • Must have a minimum of two (2) years residency, and employment history in the US and qualifying income is based on the two (2) years income, the two (2) year history is measured by note date

	• Must have a two (2) year US credit history and must meet program credit profile, the two (2) year history is measured from note date • The requirement for residency, Credit, employment may be reduced to one (1) year with AUS Approve/Ineligible (Ineligible for loan amount, DTI and/or reserves) • DACA borrowers & Asylum (C08) borrowers are eligible and if they meet non-permanent resident alien requirements. • Entity Vesting - Layered entities are not permitted. Entity vesting is allowed on non-owner occupied only, a personal guarantee must be signed by the borrower at closing. The followings are required • Entity type is LLC or Corporation • Borrower(s) must represent a minimum of 50% of the entity ownership • MAX. 4 borrowers • U.S. domiciled entities only • Purpose of entity must be for real estate acquisition • ACH required Documentation verifying the following must be provided. For LLC: • Verify entity membership with formation docs or other entity documentation • Provide federal licensing entity ID number (EIN) • Show the entity is in good standing For Corporations: • Filed Certificate/Articles of Incorporation and all amendments (or equivalent) • By-Laws and all amendments • Evidence of good standing Good standing is always required for the state in which the entity was formed (e.g., Certificate, screen shot from state website) • EIN/Tax Identification Number • Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation • Receipt of current year franchise tax payment, clear search, or evidence the state does not require a franchise tax payment
First Time Home Buyer	• Defined as borrower who has not owned residential property in the US past three (3) years, based on note date. • FTHB restrictions • All occupancy types allowed • Subject rents on investment property transaction not allowed • 660 minimum credit score • Maximum DTI is 50% • > 40% DTI requires 300% max payment shock • <= 40% DTI, payment shock does not apply • If one (1) borrower is FTHB and the other is not, then FTHB restrictions do not apply • Property owned outside of the US is not considered in FTHB determination • Max loan amount is $2,000,000 • Payment Shock = Proposed Housing Payment/Present Housing Payment x 100 For borrowers with no housing obligation in the previous 12 months, payment shock calculation is not required
Non-Occupant Co-Borrower	• Purchase and Rate/Term only • Cash-Out transactions are not allowed • Blended Ratios are allowed using one of the three following options: Option 1: - Occupying borrower must have a DTI <= 60% AND

	- a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement Option 2: - Occupying borrower must have a DTI <= 75% with combined DTI <= 40% AND - a minimum of 5% of the down payment must come from occupying borrower's own funds AND - occupant borrower is responsible for 50% of the reserve requirement Option 3: - True blended ratios are allowed at <= 70% LTV/CLTV - No occupant contribution required for down payment or reserves
Title Vesting	Individual, Joint Tenants, Inter-vivos revocable trust, business entity (Investment only)
Ineligible Borrowers	• Irrevocable or Blind Trusts • Layered Entity with a Trust • Land Trusts • Non-profit organizations • Borrowers with diplomatic immunity • Any material parties to the transaction on HUD's Limited Denial of Participation (LDP) or General Services Administration (GSA) or any other exclusionary list • ITIN borrower • Foreign National • Self-employed Borrower deriving their income from any Cannabis related business • Borrowers(s) with residence of any country not permitted to conduct business with U.S. Companies as determined by U.S. government authority

OCCUPANCY ELIGIBILITY	
Primary Residence	• A primary residence is a property that the Borrower(s) currently resides in (refinance) or intends to occupy as his or her principal residence. • 2–4 Unit properties are eligible as primary residences provided, they are common for the area and exhibit no unique characteristics that can influence marketability • Characteristics that may indicate that a property is used as a Borrower's primary residence include: ○ Occupancy by the Borrower for the major portion of the year ○ Location is relatively convenient to the Borrower's principal place of employment ○ Property is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar matters ○ Borrower may not own an additional single-family residence of equal or greater value than subject property ○ Property possesses physical characteristics that accommodate the Borrower's family
Second Home	• Must be located a reasonable distance away from the Borrower's principal residence. • Must be occupied by the Borrower(s) for some portion of the year. • Is restricted to a one-unit dwelling. • Must be suitable for year-round occupancy. • The Borrower(s) must have exclusive control over the property • Must not be subject to any timeshare arrangements, rental pools or other agreements which require the Borrower to rent the subject property or otherwise give control of the subject property to a management firm.

Non-Owner Occupied	▪ Occupancy designation for an income producing property where the Borrower does not occupy the Subject property. ▪ All Borrower(s) must execute the Occupancy Certification ▪ For non-owner-occupied loans with a Guarantor, the individual(s) providing the guarantee must execute the Personal Guaranty Agreement. ▪ Rural properties not permitted

TRANSACTION TYPES	
Purchase	▪ Borrower contribution For products that allow for gift funds, the following apply: o Owner Occupied and 2nd home allow for no borrower contribution at LTVs of 75% or lower o Owner Occupied and 2nd home require 5% borrower contribution at LTVs greater than 75% o Non-Owner occupied requires a minimum 10% borrower contribution. The lesser of the purchase price or appraised value of the Subject property is used to calculate the LTV/CLTV ▪ Interested Party Contributions (IPC) Owner Occupied & 2nd Homes o 9% for LTV<=75%, 6% for LTV>75% Non-Owner Occupied o 6% allowed for all LTVs
Rate & Term	▪ Pay off existing first mortgage and any subordinate loan used for the acquisition of the property ▪ Pay off any subordinate loan that was not used for the acquisition of the property when: o Closed end loan with at least 12 months seasoning o HELOC with at least 12 months seasoning and total draws over the past 12 months are less than $5000 ▪ Buy out of a co-owner pursuant to an agreement ▪ Pay off an installment land contract executed more than 12 months from the application date ▪ Any energy efficient based liens, like PACE or HERO, when paid off with loan proceeds, the transaction is treated like a rate and term. These liens cannot be subordinated. ▪ Important Rate & Term Notes o Cash back may not exceed the lesser of 2% or $5000 o LTV/CLTV based on current appraised value o See section on Recently Listed Properties
Cash-Out	▪ Max Equity Withdrawal • > 70% LTV up to $1,000,000 allowed • <= 70% LTV up to $1,00,000 allowed • <= 50% LTV up to $3,000,000 allowed Cash out limitations do not apply on delayed financing transactions. See Asset Depletion for Max. cash out limit ▪ The following are not eligible for cash out: • See section on Recently Listed Properties • Land Contract/Contract for Deed ▪ Cash Out Seasoning and Value Determination Cash out seasoning is defined as the difference between the note date of the new loan and the property acquisition date. Properties owned six (6) months, or more are eligible for cash out. Six months ownership seasoning is determined by the acquisition date and our note date. If the property is held in an entity, and our borrower(s) represents at least 50% interest in the entity, then the time title is in the entity can be counted in the seasoning determination. If our borrowers' interest in the entity is less than 50%, the time in the entity is not counted. • Properties owned >=6 months - use the current appraised value

	• Cash out when property is owned <6 months is only allowed under the following conditions: o Borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership o Delayed Financing ▪ Requirements for Delayed Financing 1. Document the source of funds used for the purchase with bank statements, personal loan documents, HELOC on another property, gift, etc. 2. Max LTV/CLTV is based on the lower of the current appraised value or purchase price plus documented improvements 3. Document property was purchased with cash by providing the final closing document for the transaction (ALTA) showing no lender OR provide a copy of the mortgage showing a term of 24 months or less ▪ Recently Listed Properties <u>Non-Owner Occupied</u> • Rate & Term: Any active listing must be cancelled prior to going to closing • Cash Out: Properties listed for sale in the past six (6) months are not allowed* <u>Owner Occupied and 2nd Home</u> • Rate & Term: Properties listed at the time of application are eligible provided listing is cancelled prior to going to closing • Cash Out: Properties listed for sale in the past six (6) months are not allowed* *Note: six (6) months is counted from listing cancellation date to note date
Non-Arm's Length Transaction (NALT) & Interested Party Transaction (IPT)	**Non-Arm's Length Transaction (NALT)** A Non-Arm's Length transaction occurs when the borrower has a direct relationship or business affiliation with the builder, developer, or seller. Examples are, family sales, employer/employee, property in a trust. If the seller of a property is a business-entity, then it may be necessary to confirm that the buyer is not an owner of the seller-entity. A Non-Arm's Length Transaction is not intended to bail out a family member, a complete review of the prelim as well as the seller's mortgage payment history may be required. Non-Arm's Length Restrictions • Primary residence only • Maximum LTV is 80% • For-Sale-By-Owner (FSBO) must be arm's length, unless family transaction • Employer to employee sales is not allowed • Property trades between buyer and seller are not allowed • Extra diligence and transaction review must be performed. Underwriter has the discretion to pursue any perceived concerns **Interested Party Transaction (IPT)** An IPT occurs when the borrower has an affiliation or relationship with the mortgage broker, loan officer, real estate agent or any other interested party to the transaction, extra due diligence is required when an ITP exists. The seller's real estate agent may not act as the loan officer for the subject property. Eligible NALT and IPT Transaction (Not Subject to Restrictions) • Borrower representing themselves as a real estate agent • Borrower is a mortgage broker or loan officer or works for submitting broker • Borrower is related to realtor and/or loan officer who is representing them only • Borrower earned commission is treated like seasoned funds, and may be used for down payment, closing costs or reserves • Seller representing themselves in the real estate transaction • Purchase between family members is allowed, however, any indication of a family bailout will require further documentation to determine if transaction is acceptable

Fraud Prevention	▪ Employment Fraud ○ State or other 3rd party Business search must not show borrower as CEO, president, or partner of his/her employment. ○ Credit report must not show employer's name other than current employment. If another name appears, LOE from the borrower with start/termination dates are required. ○ Bank statement must not show employer's name other than current employment with direct deposit. If another name appears, LOE from borrower with start/termination dates are required. ▪ Occupancy Fraud: Underwriter must carefully review for correct occupancy and obtain LOE when it is questionable. ○ For primary residence, commute to work is more than 60 miles or more than 2 hours. ○ Purchasing primary residence that is smaller/older than current primary residence (owned) in the same neighborhood. ○ Purchasing a second home in the same neighborhood where primary residence is located. ○ Purchasing/refinancing investment property which is bigger or has higher value than primary residence in the same neighborhood to use rental income.

CREDIT ELIGIBILITY	
Credit Report Details	▪ A credit report is required for each borrower. The report should provide merged data from the three major bureaus, Experian, Equifax, and Transunion. A minimum of two credit scores are required. ▪ A new credit report is allowed, if debt is paid down to improve score, updated asset statements may be required.
Fraud Check	• A fraud report is required on all loans, All report findings must be cleared.
Credit Report Security Freeze	• If the credit report shows a security freeze and the borrower unfreezes credit after the date of the original credit report, a new report is required to reflect current and updated information
LDP/GSA Exclusionary Report	• LDP/GSA exclusionary report is required on all parties to the transaction.
Undisclosed Debt Monitoring (UDM) or Gap Report	• A UDM or Gap Report required with the Loan File. UDM or Gap Report should be dated no more than 10 calendar days prior to note date. All new credit activity and inquires need to be addressed.
Inquiries	• All Inquiries within 90 days of the report date may require an explanation • If no new credit obtained, borrower explains the reason for inquiry and that no new credit was obtained • If new credit is obtained, documentation on the current balance, monthly payment, account number is required
Housing History	• The waiting period requirements listed below are measured from event date to note date. Event date is the day and month the payment was due. Example: May 1 payment was paid June 6th, event date is May 1. **• 0x30x12 required** • Mortgage/Rental Verification Institutional Lender/ Landlord Payment history may be documented as follows: • 12 months mortgage payment history on the credit report OR • 12 months canceled checks OR • Verification of Mortgage (VOM)/ Verification of Rent (VOR) • Non-Institutional Lender/ Landlord

	• Payments must be verified with either canceled checks or bank statements AND • A copy of the note or lease is required to verify payment amount and due date
Credit Scores	• All borrowers must have a minimum of two (2) credit scores • Use the lower of two (2) or middle of three (3) credit scores • For loans with multiple borrowers use the lowest middle score
Tradelines	• If the primary wage earner has 3 credit scores, the minimum tradeline requirement is met. Note: if the credit scores are derived from thin credit, for example authorized user accounts or new accounts with minimal usage, the borrower will need to qualify with one of the four options below. • If the primary wage earner has only 2 scores, one of the following four (4) options must be met. Multiple borrowers with the same income need to meet either the 3-credit score threshold or meet one (1) of the minimum tradeline requirements listed below. Primary wage earner ONLY must meet tradeline requirement. There are four (4) options: 1. 3 of 12: At least three (3) tradelines reporting for a minimum of 12 months, with all three (3) having activity in the last 12 months, accounts can be open or closed. 2. 2 for 24: At least two (2) tradelines reporting for a minimum of 24 months, with both having activity in the last 12 months, accounts can be open or closed. 3. 8 for 8: No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history. o At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months o The borrower has an established credit history for at least eight (8) years 4. AUS 4 for 4: AUS approval and no fewer than four (4) tradelines are reporting, one (1) of which must be a mortgage or a rental history. o At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months o There is an established credit history of at least four (4) years o Requirements can be met by primary borrower or 2 combined borrowers on same application • Please note: a satisfactorily documented housing history, not reported on the credit report, can be used to meet the tradeline minimums. If the AUS is used in lieu of documenting private housing payments, it cannot be considered as a tradeline for the purposes of meeting the minimum requirements. The following may not be considered as tradelines: 1. Self-reported tradelines 2. Accounts in deferment 3. Accounts discharged through bankruptcy 4. Authorized user accounts 5. Charge-offs / Collections 6. Foreclosures / Deed in Lieu / Short Sale
Credit Events	• Bankruptcy • Must be settled a minimum of 48 months and the length of time is measured from the discharge / dismissal date to the note date • Foreclosure • Must be settled a minimum of 48 months and the length of time is measured from the event date to the note date When a foreclosure was included in a bankruptcy, the seasoning timeline will start from the earlier date of discharge of bankruptcy and the foreclosure completion date • Short Sale / Deed in Lieu

	• Must be settled a minimum of 48 months and the length of time is measured from the event date to the note date • Modification Modifications that were a result of a COVID-19 forbearance plan are acceptable with no restrictions. Simple rate modifications performed by lender or servicer as a portfolio retention plan are acceptable with no restrictions. • All other modifications are subject to the requirements below: • The borrower must have made 48 consecutive months of timely payments on the modified loan before the note date of the new loan • Forbearance Forbearance allows borrowers experiencing financial hardship to pause making mortgage payments. A recent forbearance, due to COVID-19 only, may be eligible based upon the following: 1. Borrowers who entered forbearance but continued to make timely payments and remained employed without income disruption, are eligible without any other requirements. 2. Borrowers who participated in forbearance and missed payments have two options: o Pay loan current by making all missed payments from borrower verified funds OR o Make three monthly payments in lender modification plan after exiting forbearance. Third payment must be made prior to note date. Evidence that the borrower has exited forbearance or entered the modification plan is required If either of the two options are met, there are no other restrictions. Payments must be documented by canceled checks or bank statements. Income must have been re-established at the time payments commenced and remained consistent since. This forbearance guidance applies to all open mortgage accounts. • Consumer Credit Charge-Offs and Collections Individual collection and non-mortgage charge-offs equal to or greater than $250 AND accounts that total more than $2000 must be paid in full at closing except for: • Medical collections with a maximum aggregate balance of $10,000 • A second mortgage that has been charged off is subject to foreclosure seasoning periods for grade determination based on the charge-off date • Collections and charge-offs that have expired under the state statute of limitations, documentation is required • A balance on a charged-off mortgage does not need to be addressed unless attached to our subject property • Collections and charge-offs not excluded by one of the above three (3) exceptions must be paid or may remain open with the following • Payments for open charge-offs or collections are included in the DTI (subject to program DTI restrictions). If a payment amount is not known, 5% of the balance may be used as the payment AND/OR • Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements *Note: A combination of reserves and debt service can be used to address open balances. For example: $10,000 collection balance can be addressed by $5,000 extra reserves and $5,000 debt serviced at $250 per month. • Consumer Credit Counseling Services (CCCS) • Allowed when a minimum of 12 months have elapsed on the plan, and evidence of timely payments for the most recent 12 months is provided AND • The CCCS Administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan • The monthly CCCS must be included in the DTI. • Judgments or Liens All open judgments, garnishments and liens must be paid at or prior to closing.

	• Income Tax Liens All state, federal, and local liens must be paid and removed from title at closing or sooner. • IRS Payment Plans IRS payment plans are acceptable and can be included in the DTI. • A copy of the approved IRS installment agreement with the terms of repayment, that includes monthly payment amount and total amount due AND • The maximum payment required under the plan is included in the DTI calculation

INCOME DOCUMENTATION	
Income	Earnings Trends <table><tr><td>Stable or Increasing Income</td><td>Amounts should be averaged</td></tr><tr><td>Declining but Stable</td><td>If 24-month average shows a decline, but most of the recent 12 months has stabilized & there is no reason to believe that the income/employment will not change the most recent 12-month average may be used</td></tr><tr><td>Declining</td><td>Income is ineligible – See 'Decrease in income'</td></tr></table> Debt To Income Ratio (DTI) **Max DTI is 50%**
VVOE Requirements – All Income Types	• Full Doc (1 & 2 Year) • Wage earners require a VVOE to be completed with an effective date no earlier than 10 business days prior to the note date • Self Employed require proof business is active no more than 30 calendar days prior to the note date • For both wage earner and self-employed, the VVOE can be completed on or after the note date • Bank Statement • 12- & 24-months Business Bank statement and Co-Mingled Bank statement income do not require additional proof of current activity or proof of 2 years self-employment • 12- & 24-months Personal Bank statement does require proof of 2 years self-employment but does not require additional proof of current business activity • Asset Depletion: Nothing required • Entities that only hold real estate: neither proof of 2 years self-employment nor proof of current business activity are required • Self-employed loss or disregarded positive income: neither proof of 2 years self-employment nor proof of current business activity are required
History of Self-Employment (Full Doc and Alt Doc)	• A two (2) year history of self-employed history required on all loans • Less than two (2) years but greater than one (1) year can be considered case-by-case. Requirements are: • Strong previous experience • Job industry-specific training • Previous work history to support lack of self-employment history

Full Documentation	• When tax returns are required the most recent returns are required, if there is an extension, a copy of the extension and evidence that any tax amount due was paid, if applicable.
	• Wage / Salaried Borrowers
	  ○ Most recent paystub reflecting 30 days of YTD earnings **AND**
	  ○ W2(s) **AND**
	  ○ Verbal verification of employment (VVOE) for each employer providing qualifying income with an effective date no more than 10-business days prior to the note date. An email from the borrower's employer that identifies the name and title of the verifier may be used in lieu of a VVOE **AND**

	o Executed 4506T for each borrower as well as tax transcripts for each borrower (W2 or 1040 transcripts acceptable) • Wage / Salaried Borrowers with Incidental Self-Employment The review and analysis of self-employed income activity is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income. • 1099 Income (Not allowed) • Self-Employed Borrowers • The most recent two (2) year or one (1) year 1040's. Returns do not need to be signed • A signed and dated borrower prepared YTD P&L, up to and including the most recent month preceding the application date and two (2) business checking account statements for the two (2) recent months reflected on the P&L • If a gap exists between the tax return ending date and the start date of the P&L, a gap year P&L is required. The qualifying income is determined from the tax returns and the P&L is used to determine stability of the income. The bank statements for the most recent two (2) months must reflect deposits that support the sales from the P&L and the income from the priors' years tax return • Executed 4506T for each borrower as well as 1040 transcripts • Verify the existence of the business within 30-calendar days of the note date and ensure that the business is active: o A letter from tax professional, regulatory agency, or licensing bureau certifying two (2) years self-employment in the same business AND o A phone listing and/or a business address using internet search Unless one of the following applies: • Not required when business income is positive and not being considered for qualification • Not required when business income is negative and used to discount other income • Alimony and Child Support • Must document that support will continue for at least three (3) years from application date • Copy of divorce decree, separation agreement or other type of legal agreement/court document • Document at least six (6) months receipt of full, on-time and consistent payments • Child support is non-taxable and can be grossed up 125% • Alimony from a divorce finalized on or after January 1, 2019 is non-taxable and can be grossed up 125% • Auto Allowance • Proof that the borrower has received allowance for at least two (2) years • Add the allowance to monthly income and add the amount of the auto financing to DTIB • Cannabis • Cannabis related self-employed income is not allowed Borrowers whose self-employed income (active or passive) is derived from a company involved in cultivation, transportation, retailing, etc., are not allowed, regardless of the percentage of company ownership • Income from borrowers who are wage earners in the industry are allowed • Capital Gains • Document a two (2) year history with Schedule D

• Use a two (2) year average if evidence of additional property or assets that can be sold to support the borrower and they will continue to receive capital gains for a minimum of two (2) years
• Current receipt is not required but asset ownership is required

Capital losses do not have to be considered.

- Disability Income
  • Obtain a copy of the disability policy or benefits statement with amount and frequency of payments AND
  • Current proof of receipt AND
  • And if there is a contractually established termination or modification date
  Typically, long-term disability (LTD) does not have an end date and should be expected to continue.
  Short-term disability (STD) that will decrease within the next three (3) years because of a conversion to LTD, must use the amount of the LTD payment.
  If borrower is receiving STD that will decrease or end when borrower returns to work, the following is required:
  1. Signed letter from the borrower stating intent to return to work once disability no longer exists AND
  2. Employer verification that borrower will be allowed to return to work once disability no longer exists.

- Employed by Relative/Family
  • One (1) year federal tax return **OR** document ownership of business
  Further documentation may be required to show ownership structure as well as confirmation from tax professional.

- Employment Contracts or Offers
  • Copy of the executed non-contingent job contract **AND**
  • First paystub or WVOE and confirmation that borrower has started the new job

- Foreign Income
  May use foreign income to qualify with copies of US Federal income tax returns for the most recent two (2) years that show foreign income. Standard documentation requirements are based on the source and type of income.

- Foster Income
  • Foster care letters from the organizations providing the income AND
  • Document two (2) year history for borrower of providing foster care
  • If the borrower has not been receiving this type of income for two (2) full years, the income may still be counted as income if the borrower has at least a 12-month history of providing foster care, but this income may not be more than 30% of total income

- Housing/Parsonage Allowance
  • Income may be used if it has been received for the most recent 12 months, and it is likely to continue for the next three (3) years
  • May not use the housing allowance to offset the subject PITI
  • WVOE is required

- Interest/Dividend Income
  • Document a two-year history of the income from the borrower's tax returns
  • Average the income received for the most recent two (2) years

- Notes Receivable Income
  • Verify that the income is expected to continue for a minimum of three (3) years from the of the application date of the subject mortgage
  • Provide a copy of the note to establish the amount and length of payment

	• Document regular receipt of income for the most recent 12 months using either cancelled checks, bank statements, or tax returns • Notes that are executed within the last 12 months are not acceptable regardless of the duration of the note • Pension Document current receipt of the income, as verified by one or more of the following: • a statement from the organization providing the income, • a copy of retirement award letter or benefit statement, • a copy of financial or bank account statement, • a copy of signed federal income tax return, • an IRS W-2 form, or • an IRS 1099 form. • IRA or other self-directed retirement distributions There are 3 methods or using these distributions: Method 1. From an average of historical distributions found on 1099 or 1040 Method 2. From evidence of current monthly automatic distribution Method 3. Imputed distribution for borrowers without current distribution history The following documentation is required: Method 1 • Account Statement(s) reflecting the available total balance for withdrawals. • Two prior years 1099-R or 1040 • Income will be averaged based upon withdrawals over the past 24-months. Method 2 • Account Statement(s) reflecting available total balance for withdrawals • Evidence of automatic withdrawal (the document must reflect a termination date of not less than 36 months from application date) • One-month proof of current receipt • Current distribution amount will be used for income Method 3 • Account Statements reflecting available total balance for withdrawals • Discount total balance by 10% if borrower is subject to early distribution penalty • Qualifying income is net balance divided by 36 If income is from a 401K or IRA distribution, determine that the income is expected to continue for at least three (3) years from the application date. Funds do not need to be discounted for market driven financial products, however, if an early withdrawal penalty applies due to the borrower's age, it must be applied to the IRA/401K balance. • Rental Income: Long-term • Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E • Leases are required for all properties where rental income is being used to qualify • For commercial properties on page 1 of Sch E, a copy of the lease or rent roll is required • Properties with expired leases that have been converted month to month per the terms of the lease will require documentation of rents received for the lesser of 2 months or the period after the lease expired • Proposed rental income from a 1007 may be used for qualifying on the purchase of a vacant investment property. A 20% vacancy factor must be applied to the gross rent used • If the borrower does not have a history of rental income or if the tax returns do not accurately reflect the ongoing income and expenses of the property, the

	underwriter may be justified in using a fully executed current lease, minus a 20% vacancy factor as seen in the examples below: o A refinance transaction in which the borrower purchased the rental property during or after the last tax return filing o A refinance of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income) o Simple rent increases do not qualify as justification for using current lease income, historical rents must be used • Rental Income: Short-term (STR) Qualifying Income can be used for property that is rented on a short-term basis though services like Airbnb and VRBO. The income is underwritten in the same manner as long-term rentals, as the rental activity will typically show up on Schedule-E. Host reports showing the monthly income are used to show current rental activity. Bear in mind that many STR properties will have a seasonal component. For STR properties obtained after the borrower's most recent filed tax return, income can be derived from a third party STR facilitator's host report. Companies like Airbnb and VRBO provide summary reports which show the net payout to the owner for each property. Depending on the length of time the property has been in service, an AirDNA report can be pulled to help determine the usable rental income. The AirDNA will show any seasonal aspect of the property's cash flow. The AirDNA report is used to support the property's actual income, it is not used to determine future possible income. When using an STR host report for income, 80% of the payout to the owner will be used. PITI is applied to determine the properties net income or net loss. • Accessory Dwelling Unit (ADU) Rents ADUs are becoming increasingly popular in many locations across the US as housing gets more scarce and more expensive. Using rents from an ADU are acceptable with the following requirements: • Appraisal shows the ADU to be legal • Appraiser to provide comparables with ADUs • Multi-family or multi-ADU acceptable provided total unit count is less than or equal to four Refinance • Appraiser to address ADU rents on a 1007 Purchase • Follow guidance above Rental Income Calculation section, however, STR not allowed • Rental Income: Departure Property If the current residence is pending sale but the transaction will not close prior to the subject transaction, the current PITI may be excluded with the following: 1. The executed sales contract for the current residence AND 2. Confirmation that all financing contingencies have been cleared. If the current residence will become a rental property, the net rental income for a new lease may be used to offset carrying costs or to add to qualifying income. 75% of the new lease will be used to determine the qualifying rental income. Net positive income may be used. The following 3 items are required: 1. Copy of current lease AND 2. Proof of receipt of deposit and 1st month's rent AND

	3. Evidence rent is near market, either a 1007 or other underwriter/loan officer obtained confirmation of market rent is required If the departure prop is unleased, then the PITI can be offset with market rents from 1007, or acceptable online rent estimates. Positive cash flow from departing residence without a lease in place may not be added to income. Use 1007, or other acceptable third-party report, and apply the 75% rule to determine cash flow. An additional 2 months of PITI on our subject property is required when using rents on an unleased property • Restricted Stock Units (RSUs) RSU's are bonus payouts in the form of company stock that vests over a period of years, usually 2 to 4 years. For example, if the award is 1000 units vested over 4 years, then 25% of the award, or 250 units, will vest every year. When the units vest, they can be sold by the employee at the prevailing market price or retained. Often employees are awarded a new RSU grant every year, so they will have stock vesting every year from different historical awards. RSUs may be used as qualifying income following the requirements listed below. Often, borrowers in the industries that issue RSU, will move to new companies, we can only use RSU being generated by the current employer, however, RSU received from a previous employer can be used to demonstrate the required history of receipt. • Company issuing the RSU must be publicly traded • RSU have been received for the prior 1 year • Must be likely to continue for the next 3 years, based on application date • Borrower must be employed at the same company that issued the RSU being used for income purposes Calculating RSU qualifying income: Multiply the 200-day moving average stock price, by the number of vested shares distributed to the borrower in the most recent 12 months, then divide by 12. Example: if 100 vested shares were distributed in the past 12 months and the 200-day moving average stock price is $125, multiply 100 x $125, then divide by 12 =$1,041.67 monthly income • Royalty Income The following documents are required: • Contract, agreement, or statement confirming amount, frequency, and duration of the income • The borrower's most recent signed tax return including Schedule E • Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the application date • Social Security Income • When borrower receives his/her own benefits, whether retirement or disability, the benefit is expected to continue, and proof of a 3-year continuance is not required • Benefits based upon another person's account for retirement, disability, or supplemental income require proof of 3-year continuance. Social Security Income can be documented with any of the 4 methods below: • Social Security Administration's (SSA) Award letter, • SSA-1099, • Most recent signed federal income tax returns (or tax transcripts), or • Proof of current receipt

	• Tip Income Tip and gratuity income may be considered if it is typical for the borrower's occupation. Document that the income has been received for at least two (2) years with most recent YTD paystub and tax returns, calculate a two (2) year average. • Trust Income Obtain a copy of the trust agreement, or the trustee's statement, confirming the amount, frequency, and type of income being received. Note: A borrower who is also a trustee may not supply the trustee's statement. Trust Distributions with fixed payments Document current receipt of trust income with one month's bank statement or other equivalent documentation. Payments must have been received for 12 months or longer to be considered stable monthly income, unless the following requirements are met: • the trust documentation reflects fixed payments, • the borrower is not the grantor, and • at least one payment is received prior to closing. Trust Distributions with Variable payments Document the following: • a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal tax income tax returns for the most recent two years, and • current receipt of trust income with one month's bank statement or other equivalent documentation. • Unemployment Benefits Unemployment compensation may be used if it is seasonal in nature and there is a two (2) year history of receipt. • VA Benefits • Provide award letter or VA distribution form • Verify that the benefit will continue for at least three (3) years from the note date • When using VA retirement or VA disability verification of three (3) year continuance is not required • Education benefits are not acceptable as they are offset by educational expenses • Variable: Overtime/Bonus/Commission • Income may be used on 1- or 2-year documentation type • A Written Verification of Employment (WVOE) is required to show the breakdown of the income types • Variable income earned for less than one year may not be used • Variable income is averaged over the most recent 2 years + YTD or 1 year + YTD, however, if the most recent 12 months, or YTD, is lower, the income is averaged over the shorter period • Self-Employment Maximum Number of Business Entities • No limit to the number of businesses or entities Length of Self Employment (Full Doc) A minimum of a two (2) year history of self-employment is considered stable and effective. Self-employment activity under two (2) years may be acceptable if a strong justification can be provided, for example:

	• The borrower has specific education or training in the field for which they are now self-employed • The borrower has plentiful work experience in the field for which they are now self-employed • Self-employed income without a minimum of a full 12 months reported on either tax returns is not considered acceptable income Increase in Income When the borrower has experienced a significant increase in income, the higher income may not be used unless there is sufficient documentation to determine that the increase is stable and likely to continue at the amount used for qualifying. Decrease in Income When the borrower has experienced a significant decrease in income, the income cannot be averaged using a previous higher amount. Any significant decrease in income must be documented to show the negative trend has reversed or stopped. • NOTE: A significant increase or decrease is generally considered to be 25%. Required Documentation for Underwriting Business Income • Federal income tax returns (1040) for the most recent two (2) years, including all schedules • Business tax returns for the most recent two (2) years appropriate to entity type • Dated and signed year to date P&L • Gap year P&L is required when most recent tax year return has not been filed • I.e.: July 14, 2021 – if borrower has extended 2020, then 2018 and 2019 returns required + 2020 P&L + 2021 YTD P&L Non-Cash Expenses that May Be Added Back to the Net Income/Loss Deductible expenses are depreciation, depletion, amortization, and in some cases a Net Operating Loss (NOL) • Depreciation is a deduction for the decline in value of an asset such as real or personal property • Depletion is a deduction for the useful life of a natural resource • Amortization of an asset spreads the cost over the asset's useful life • A net operating loss (NOL) is a business loss that occurred prior to the current tax year and the full loss was not recognized in the year it occurred but is spread over future years. An NOL can be deducted if it can be shown to have been a one-time event • Section 179 expenses may not be added back to income Types of Business Structures Sole Proprietorship (Schedule C) • A sole proprietorship is a business owned by an individual. Income is generally reported on 1040, Schedule C Partnership (1065) • If a borrower has 25% or more ownership in the partnership, they are considered self-employed • A partnership is formed when two (2) or more individuals form a business and share profits, losses, and manage the business. The partnership does not pay the taxes. The income/loss is passed through to the partners based on the percentage of ownership and is reported to each partner on a K-1 • Partnership cash flow is determined by analyzing the 1065 tax return Single Owner LLC (Schedule C or 1065)

	These entities are not required by the IRS to prepare 1065 tax returns. If a borrower owns REO inside a Single Owner LLC and elects to report the REO on page 1 of Schedule E instead of preparing the 1065 then we can treat the REO in one of two ways: • If property is residential, prepare the normal rental calculation and deduct current PITI from historic rents and obtain the lease to confirm current rents • If property is commercial then treat like commercial prop inside a 1065: calculate normal addbacks to net income, do not confirm current rents or PITI Corporation (1120) • A corporation (also known as C-Corp) is a legal entity that is separate from its owners. If a borrower has 25% or more ownership in a corporation, they are considered self-employed • Corporations file corporate tax returns (Form 1120). Officers who are principals of the corporation generally receive a paystub and a W-2. Use an average of the borrower's earnings for the past two (2) tax years. Current W2 wages do not enter the income calculation. Additionally, business tax returns must be analyzed to assess the likelihood of continued personal income • To calculate corporate income, total tax must be deducted from taxable income • Retained earnings in the business are not recognized as cash flow to the borrower or to the company • Income from the corporation is recognized as income to the borrower if he or she is the sole and full owner, and if the withdrawal of funds will have no effect on the corporation's continued growth S-Corporation (1120) • An S-corporation is similar to a standard corporation; the difference is that any profit or loss is reported by the owners on Schedule E of the 1040s. Income for an owner that comes from wages is reported on the individual's tax return (Form 1040). Current W2 wages not reported on a 1040 are not part of the income calculation • S-corporation K-1 income represents any guaranteed payments or salary and property distributions including cash • The borrower's share is based on his or her percentage of ownership as reported on K-1. Depreciation, depletion, and amortization or casualty loss may be added back to income. Other non-recurring income/loss should be subtracted/added back • Retained earnings in the business are not recognized as personal cash flow to the borrower or to the company REO Held in Entities Real Estate holdings vested in a business entity, where the entity's sole purpose is for holding real estate, are treated like REO and not subject to self-employed income documentation requirements. • No P&L or Balance sheets are required • No proof of current self-employment is required Allowable Age of Federal Income Tax Returns The most recent year's tax return is defined as the last return scheduled to have filed with the IRS: If today's date is: The most recent year's tax return is: < April 15th, 2025 2023 >= April 16th, 2025 2024 or extension >= October 16th, 2025 2024
	The Bank Statement programs are designed for self-employed borrowers with active income activity. Passive income, like capital gains and rents, are not considered eligible as bank statement income. Qualifying income is determined by evaluating deposits into either personal or business bank statements.

Alt Doc Income 24- or 12-Month Bank Statement	
Alt Doc Income 24- or 12-Month Bank Statement	• Types of Eligible Accounts • Personal Bank Statements (PBS): used when borrower pushes net profits from the business, via a business bank account, to the personal account • Business Bank Statements (BBS): used for business owners who do not regularly push profits to their personal bank account, deposits in the BBS are evaluated to determine the business gross sales • Co-Mingled Bank Accounts: used for borrowers who do not have a business bank account and use their personal account for customer facing business activity. Co-Mingled is treated like a business bank account for underwriting purposes o Co-mingled accounts that are jointly held with a non-borrower are usually problematic but can sometimes be acceptable provided the income activity of our borrower can be clearly defined in the account statements. This can often be very difficult based on the nature of the deposits, therefore, underwriter discretion must be applied. • Methods of Determining Qualifying Income Bank Statement income falls into 2 categories: • Personal Bank Statements (PBS). With PBS, the borrower's business pushes net income from the business to the borrower. Since this is net income, we use 100% to determine the qualifying income • Business Banks statements and Co-Mingled Bank Statements (BBS). With BBS, the deposits are evaluated to determine the business gross sales. An expense factor is applied to the gross sales to determine the business net income. There are 3 options used to apply an expense factor: o 50% Fixed Expense Ratio o Business Expense Statement o Third Party P&L • 24- and 12-Month Bank Statement Requirements and Restrictions • Refer to product matrices for max LTV/CLTV and DTI • The borrower's primary income activity must be self-employed • Passive income or wage income is allowed as contributory income • Borrowers paid 1099 from a single company are not eligible for a Bank Statement qualification • Tax returns, 4506 and/or tax returns are not required for these programs. If tax returns or tax transcripts are in the file, the loan is not eligible for a Bank Statement Program • Income documented through the Bank Statement program may be combined with other income sources that are documented as Full Doc but not associated with self-employment, such as a spouse employed as a wage earner • When wage income is combined with Bank Statement income, a tax return is not required for the full income documentation, as this would invalidate the bank statements. The 4506 form is still required; however, Box 8 should be checked to obtain a transcript of W-2 earnings. Please see the transcripts section for full details including non-transcripts options • Rental Income with Bank Statement & Other Alt Doc Loans Rental income may be included as a secondary income type and the following are required: • A copy of the lease(s) for the rental property • 75% of the lease amount can be used to determine the net cash flow of the rental property • 2-month verification of the receipt of rental income into a borrower owned account. Often it is difficult to pinpoint the exact rental amount being deposited, especially when the borrower has multiple REO. The UW has latitude but must exercise discretion to ensure that deposits reasonably support the rental amount

	• Rental income deposits into the account used for the business income analysis must be removed from the gross sales evaluation If the rental income deposits cannot be validated, the full PITI of the rental unit must be included in the DTI calculation. • Bank Statement Rental Income Borrowers with rental property as their primary source of income can qualify using bank statements. To determine the eligible rental income, we will use a lease amount, discounted for repairs and other expenses, minus the PITI for the properties generating income. Net income for each property is used up to the borrower's ownership position in the property. If the property is held by 2 or more people with no percentage listed, the ownership position is divided by the number of owners. If properties are held in entities, ownership position is determined by viewing entity formation docs. Often it is difficult to pinpoint the exact lease amount being deposited, especially when the borrower has multiple REO. The underwriter has latitude here but must exercise discretion to ensure that deposits reasonably support the gross rental amount. The following documentation is required: • A copy of the lease(s) for the rental property • 12 months of bank statements to confirm receipt of rents • Property profiles, or similar, that document the borrower's ownership position in each REO used to generate qualifying income • Entity formation docs for properties held in an entity Income Calculation • Determine the gross lease amount (sum of all leases) • Total the 12 months of eligible deposits*, then divide by 12 to determine the monthly average eligible deposits • Determine the gross rents: 90% of the lesser of monthly average eligible deposits or gross lease amount • Subtract the total PITI from the gross rents to determine net income *Determination of Eligible Deposits o Take total deposits from the front page of each bank statement o Remove any other income being used in qualification, like SSN or wages, for example o Remove any obvious non-income, for example, refinance proceeds or other loans, tax refunds, transfers from another borrower account, etc. • Real Estate Flipper Program (Alt Doc) The Real Estate Flipper Program is designed for self-employed borrowers only. Income is derived from the capital gains associated with professionals who acquire, rehab, and then sell residential real estate. The qualifying income is a percentage of the gross profit, which is the difference between the acquisition cost and the net liquidation value. The acquisition cost will be the purchase price plus transaction fees. The liquidation value will be the sales price minus transaction fees. The gross profit is what's left over when we subtract the acquisition cost from the liquidation value. A percentage of this remainder is used for qualifying income as follows: • 50% of the remainder is divided by the borrower's ownership position in the project up to an LTV/CLTV of 75% • 25% of the remainder divided by the borrower's ownership position in the project for an LTV/CLTV greater than 75% In order to qualify for the Real Estate Flipper Program, the borrower must document 2 or more transactions spanning a minimum of 12 months. Flipper income can be used on its own or in conjunction with other income sources.

	The following are required: • ALTA from the acquisition of each project being considered • ALTA from the sale of each project being considered • 12 or 24 months of bank statements • Borrower must be a minimum 25% owner of the project • Transcripts are not required • Length of Self Employment (Alt Doc) A minimum of a two (2) year history of self-employment is considered stable and effective. Self-employment activity under two (2) years may be acceptable if strong justification can be provided, for example: • The borrower has specific education or training in the field for which they are now self-employed • The borrower has plentiful work experience in the field for which they are now self-employed • Self-employed income without a minimum of a full 12 monthshistory on Personal/Business Bank Statements is not considered acceptable income • Bank Statement Income Analysis <u>Types of deposits:</u> There are many different methods for funds to be deposited into a bank account. • Counter deposits: these are in-branch deposits consisting of checks and/or cash • Transfers: these are funds transferred from a different account in the same bank • Wire deposits: typically for larger amounts and used because they clear instantly • Point of sale applications like Square, ShopKeep, or Shopify. These are customer facing applications that accept funds in order to complete a retail transaction • Person to person money transfer applications like Venmo and PayPal • Retail bank transfer applications like Zelle Evaluation of the deposit methods must be considered in order to determine if the deposits represent gross receipts for a business or some other non-business activity, for example, with a retail shop you'd expect counter deposits, for those customers paying by cash & check, merchant services deposits (for credit cards), or point of sale (POS) vendors like Square. In this example a wire deposit would not be regular activity and would need to be supported or excluded. <u>Consistency of deposits:</u> Some businesses will have regular, similar sized deposits, some business will have groupings of larger and smaller deposits, representing large and small customers, the goal is to have a consistent identifiable mix. Not all deposits need to fit into a standard size matrix. The deposits for 2 different business can look completely different and each still be consistent. 1. Ideally the number of deposits reflect a repeated monthly pattern. 2. Ideally the size of deposits reflects a repeated monthly pattern. <u>Large deposits:</u> • Any deposit exceeding 50% of the average monthly sales of the business is considered a large deposit • Isolated large deposits are deposits that occur very infrequently. These deposits need to be sourced and confirmed as business income, or they should be excluded • Six, or more, large deposits in a 12-month period can be considered as consistent and do not necessarily need to be sourced or excluded

	<u>Changes in deposit pattern:</u> Changes in deposit pattern can occur for many reasons, here are few examples: seasonality of the business, changes in the method of receiving funds, or a shift in business strategy, concentrating on fewer but larger customers, for example. Changes in deposit pattern must be reviewed carefully to determine if the business viability is in question. Further support or explanation from the borrower may be required. <u>Ineligible Deposits:</u> Ineligible deposits need to be excluded: diligence should be applied to uncover non-income deposits, like loan proceeds, income tax refunds, personal gifts, sales refunds, or sale of personal assets like an automobile. Deposits of this type but not limited to those named in the previous sentence, need to be removed from the income analysis. <u>Transfers:</u> Transfers should be reviewed carefully to ensure they are not coming from another borrower-owned or controlled account. If the origin of the transfer is unclear it will need to be documented as income or excluded. <u>Other Income:</u> Income documented separately, but co-mingled, like W2 income, or rent payments for borrower owned rental properties, must be backed out of deposits. • Requirement to Prove Percentage of Business Owned on Bank Statement Programs Proof of the percentage ownership of the business providing the qualifying income is required for all bank statement program options: Personal, Co-Mingled, and Business. Typically, the borrower will provide formation docs or a letter from the borrower's tax preparer, however, if the borrower self-prepares or his/her business structure is not an entity, proving the ownership position can be difficult. Listed below are some alternatives when this issue arises: • For borrowers using Business Bank statements, a letter from the bank confirming the borrower is the only owner of the account will be acceptable to meet the percentage of ownership requirement • For borrowers using Personal or Co-Mingled bank statements, an LOE prepared by the borrower providing a very brief (one sentence) explanation of the work they do and an affirmation they self-file and are a sole proprietor can be accepted to meet the percentage of ownership requirement. The LOE must be signed and dated by the borrower and reviewed during the underwriting process • Business Narrative A business narrative is required to be completed by the borrower or loan officer, when using business bank statement or co-mingled bank statement income. The business narrative must be in the file at submission. • Non-Sufficient Funds (NSF) and Overdraft Protection on Bank Statement Loans NSFs or negative balances in business bank accounts may be a sign of business weakness and need to be evaluated. We review NSF activity and calculate the number of occurrences per month for the most recent 12 months. An occurrence is one or more NSFs in any day. For example, 2 or more NSFs in the same day is considered 1 occurrence. Often business owners will have a line of credit, or another account linked to the business bank account as a means of protection against overdraft fees and returned items. This can be an acceptable cash management tool and excluded from our NSF evaluation provided the following: 1. Overdraft protection from a depository account Exclude occurrences if statements for the linked account confirm that:

a. The linked account's balance at the time of the transfer exceeded the amount of the overdraft transfer AND
b. The linked account's balance did not report as zero or negative at any time during the statement period of the transfer AND
c. The linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
2. Overdraft protection from a line of credit
Exclude occurrences if statements for the linked account confirm that:
a. The line's credit limit was not exceeded during the statement period of the transfer AND
b. A payment amount that equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.

Acceptable NSF tolerances:
The most recent 12 months are reviewed.
• 1 / 3 / 3: If there are 1 or more occurrences in the most recent 3 months, then 3 occurrences are allowed
• 0 / 3 / 5: If there are 0 occurrences in the most recent 3 months, then 5 occurrences are allowed
• Exceptions may be considered and must include (a) a letter of explanation from the borrower outlining the reasons for the occurrences and explanation how and when the issue leading to the occurrences was resolved, AND (b) additional compensating factors supporting the viability of income

- Setting the Expense Method and Determining the Qualifying Income

Personal Accounts	
Personal Accounts Account reflecting personal income and expenses	• Most recent 12- or 24-months personal bank statements • Most recent two (2) months business bank statements • Verify that within 60 days of note that the business has a minimum two (2) year operating history • Verify that the borrower owns at least 20% of the business with one of the following: ○ Business Entity Operating agreement that reflects the borrower's ownership percentage ○ A letter from a tax professional who has prepared the borrower's tax returns
Personal Bank Statement Review	
• Income calculated using total deposits, subtract any inconsistent or large deposits The total eligible deposits from the 24 months or most recent 12 months of statements • The most recent bank statement must be consistent with the qualifying income • ATM deposits may be included if a consistent pattern is present • Two (2) months of business bank statements are required ○ Must evidence activity to support business operations AND ○ Must reflect transfers to personal account	

Business Accounts or Co-Mingled Accounts	
Business Accounts or Co-Mingled Accounts Account in the name of the business reflecting only business income and expenses	• Verify that the borrower owns at least 25% of the business with one of the following: ○ Business Entity Operating agreement that reflects the borrower's ownership percentage ○ A letter from a tax professional who has prepared the borrower's tax returns • Net income from the bank statement analysis must be multiplied by the borrower's ownership percentage • Expense analysis must be reasonable for the type of the business

	• Co-Mingled ONLY: Verify that the borrower is 100% owner of the business (borrower + spouse with combined 100% ownership is also eligible) • Apply one of the three expense ratio options

Option 1 Fixed Expense Ratio – 50%

Option 1 – Fixed Expense Ratio 50%	
Option 1 Fixed Expense Ratio 50%	A 50% fixed expense ratio is applied to total allowed deposits to determine the net business income. • 12 months of business bank statements OR • 24 months of business bank statements
Option 1 – Income Calculation	
Option 1 Determine Qualifying Income	Total deposits from bank statements, subtract inconsistent deposits, multiple by 50%, multiple by business ownership percentage, divided # of bank statements reviewed

Option 2 Business Expense Statement Letter

Option 2 – Business Expense Statement Letter	
Option 2 Business Expense Statement Letter	• 12 or 24 months of business bank statements covering the most recent time-period AND • An expense statement specifying business expenses (minimum expense ratio is 10%) as a percent of the gross annual sales/revenue, prepared and signed by either a CPA/accountant, IRS Enrolled Agent or tax preparer who has working knowledge of the borrower's tax returns AND • Documentation showing evidence of the preparer's business • The individual providing the statement, or the individual's firm, must have prepared the borrower's most recent tax returns
Option 2 – Income Calculation	
Option 2 Determine Qualifying Income	• Determine net income by total deposits, subtract inconsistent deposits, less total expenses • To calculate total expenses – Multiple the total deposits by the expense factor provided by the Tax Professional (subject to a minimum total expense percentage of 10%) Qualifying income is the lower of A. If 24-month bank statement, use the net income from the analysis from all 24 statements OR B. For both the 12- and 24-month bank statement, the net income from the analysis from all 12 statements. Expenses must be reasonable for the type of the business.

Option 3 – Third Party Prepared P&L Statement

Option 3 – Third Party Prepared P&L	
Option 3 Third Party Prepared P&L	• 12 and 24 months of business bank statements covering the most recent time-period and matching the time-period covered by the P&L AND • P&L covering 12 or 24 months, matching the number of bank statements, prepared, and signed by either a CPA/accountant, IRS Enrolled Agent or licensed tax preparer AND • Documentation showing evidence of the preparer's business
Option 3 – Income Calculation	
Option 3	• P&L sales/revenue must be supported by bank statements

	Determine Qualifying Income	• Total deposits on bank statements, subtract inconsistent deposits, must be greater than or no more than 15% below the sales/revenue reflected on the P&L. Bank statements and P&L must cover same time. If the deposits support the sales Qualifying income is the lower of A. The net income indicated on the P&L, divided by the # of statements OR B. Total deposits reported on bank statements, subtract inconsistent deposits, divided by the # of statements. For the 24-month option, the average total deposits from the most recent 12-month time must be consistent with the average total deposits from months 13-24. If the deposit trend is declining, a business narrative and explanation is required to determine if the loan meets the stable income definition.
Alt Doc - CPA P&L Program	• The CPA P&L Program is designed for self-employed borrowers only. • A P&L covering the most recent 12 months is provided by the borrower's CPA. Qualifying income is determined by taking the net income by CPA provided P&L and dividing by 12. The result is divided by the borrower's percentage of ownership in the business. • 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. • The following are required: • P&L must be signed/dated by CPA and borrower • Underwriter must validate CPA/ Licensed Tax Preparer credentials. No PTIN. • Borrower must be a minimum 50% owner of the business • Evidence of the borrower's business and ownership position must be verified • Bank statements must be provided; co-mingled accounts must be solo or joint with non-borrowing co-owner of business generating our income • Transcripts are not required • 80% Max LTV/CLTV • CPA/ Licensed Tax Preparer (No PTIN) must indicate they have prepared the borrower's returns	
Alt Doc – Asset Depletion	• Asset depletion is allowed as qualifying income on its own or combined with other income sources. • When asset depletion is used in any percentage of total qualifying income – must follow 12 Month Bank Statement program for eligibility – Refer to matrix. • Qualifying Assets Qualifying assets are the assets that remain after down payment and closing costs • Minimum required qualifying assets must meet one of the following three options: ○ $1,000,000 ○ 150% of the loan amount ○ $400,000 provided the borrower has 60 months of total liabilities* net of funds to close. Example: borrower total liabilities is $8200, 60-month total is $492,000. If the borrower has $492,000 net of transaction costs, then the borrower is eligible to asset deplete as little as $400,000 in qualified assets. * Total liabilities • Monthly consumer debt • REO PITI or calculated negative cash flow • subject PITI • Child support	

	• ETC • Income Calculation Qualifying assets / 60 • Reserves Not required • Restrictions • Non occupant co-borrower is not allowed. • Maximum 50% DTI • Gift not allowed. • Maximum 80% LTV • Cash out maximum equity withdrawal is $500,000. No limit on delayed financing • Documentation Requirements • All individuals listed on the assets used for depletion must be owners or buyers of the property. Any non-borrower on the accounts must be a spouse or domestic partner of our borrower. A credit report is required for all non-borrowers, any debts not already included must be added for our DTI calculation. For simplicity purposes, a joint report can be provided. If non-borrower credit report is not provided, 50% of the asset may be used • Other individuals listed on an account not fitting the category above makes the asset ineligible • Asset verification requires three (3) months account statements • Eligible Assets • 100% of checking, savings, money market, savings bonds, and CDs • 80% of stocks, mutual funds, and bond funds • Retirement assets which are subject to early withdrawal penalty, deduct 10% from categories listed below ○ IRA ○ 401k ○ Self-employed retirement accounts • Cash surrender value of life insurance, annuities, etc. • Ineligible Assets • Business funds • Non vested RSU • Real estate equity • Stocks in non-publicly traded companies • Crypto currency • Public Sector retirement income plans • Assets which produce income already included in the income calculation • Assets not held in a U.S. based financial institution
Transcripts	• Transcripts are required for all income used to qualify, with the following exclusions: transcripts are not required for asset depletion income, bank statement income or 1040 type income used in conjunction with the bank statement program, i.e., rental income. • For full doc income, the transcripts can match the income type. • Business transcripts are not required provided all business income is reported on the 1040 and validated by 1040 transcripts, however, a signed 4506 for the business is required. • Tax Transcripts on Full Doc Required on all income used to qualify • Transcripts can match income type • Business transcripts not required if business income is reported on 1040 • Signed 1040's are not required • 3rd party WVOE can be used in lieu of W2 transcripts • Transcripts not required for subject investment property rental income • Tax Transcripts for Bank Statement and other Alt Doc

	• Transcripts not required for Bank Statement, CPA P&L, and Asset Depletion • Transcripts are required for any non-1040 type full doc income used in conjunction with Alt Doc income types - i.e., W2 wages (see section on transcripts for alternatives) • If the most recent year's tax transcript is not available, the income may be used provided: • Tax returns are officially stamped return by the IRS "as received" OR • Evidence that the return was electronically received, must reflect refund or amount owed to IRS AND • Evidence of a refund check or payment made AND • Non-validated income must be in-line with prior year's validated income. Non-validated income with significant increases may not be considered or averaged • The above only applies to situations where two (2) years of income docs have been provided, for programs only requiring only one (1) year of income docs, they must be validated with transcripts
Departing Residence	• If the current residence is pending sale but the transaction will not close prior to the subject transaction, the current PITI may be excluded with the following: 1. The executed sales contract for the current residence AND 2. Confirmation that all financing contingencies have been cleared. • If the current residence will become a rental property, the net rental income for a new lease may be used to offset carrying costs or to add to qualifying income. 75% of the new lease will be used to determine the qualifying rental income. Net positive income may be used. The following 3 items are required: 1. Copy of current lease AND 2. Proof of receipt of deposit and 1st month's rent AND 3. Evidence rent is near market, either a 1007 or other underwriter/loan officer obtained confirmation of market rent is required • If the departure prop is unleased, then the PITI can be offset with market rents from a 1007. • Positive cash flow from departing residence without a lease in place may not be added to income. • Use 1007 and apply the 75% rule to determine cash flow. • An additional 2 months of PITI on our subject property is required when using rents on an unleased property.

ASSETS	

Documentation	• 2-month asset documents are required.
	• Must be dated within 120 days of the note
	• On a purchase transaction, large deposits must be sourced, a large deposit is considered more than 100% of the borrower's monthly income
	• Foreign assets may be used for down payment and closing costs with the following:
	  o Assets must be verified in USD at current exchange rate http://www.xe.com AND
	  o Two (2) months recent statements
	• Non-vested stock accounts are not allowed.
	• Joint Accounts: Access letters from co-owners are not required provided our borrower is clearly an account owner.

Funds to Close	• If funds to close are in non-cash holdings (stocks, bonds, mutual funds), verification of liquidation is required, however, proof of liquidation is not required if holdings are equal to a minimum of 120% of funds to close.
Business Funds	• May be used for down payment and reserves on all income types with the following: • Business funds may be used up to the borrower's percentage of ownership

	• Perform a cash flow analysis to determine that the use of business funds will not have a negative impact on the business if income from the business is being used to qualify • Analysis of large deposits is generally not required, however, any recent large deposits outside the trend that approximate the required funds to close should be addressed to ensure they are not borrowed funds
Crypto Currency	• Crypto currency that has been converted to USD is an acceptable source of funds provided the crypto can be acceptably documented. Recently this asset type has gained more widespread popularity and documentation has improved. The documentation must show the acquisition date of the asset, and it must show a sufficient history to meet 60-day seasoning requirements. • Not all crypto currencies or crypto brokerages will provide adequate documentation. An abundance of care must be used in reviewing statements provided.
Gift Funds	• A minimum of 5% borrower contribution is required on owner occupied and 2nd homes when LTV is > 75%. • A minimum of 10% borrower contribution is required for non-owner occupied. • Gift funds may not be used for reserves. • Gift donor must be a family member, domestic partner, fiancé – Follow FNMA guidance. • Gift of equity transactions are allowed.
Reserves	• All reserve requirements are based on subject property PITI or ITI if applicable • If the transaction fits 2 categories listed below, only the larger requirement applies Loan proceeds may be used to meet the reserve requirement ○ 3 months PITI required for loan amounts of <= $750,000 ○ 6 months PITI required for loan amounts of <= $1.5mm ○ 9 months PITI required for loan amounts > $1.5mm ○ 12 months PITI required for loan amounts > $2.5mm ○ 2 months PITI on subject property when using 1007 rents with no lease • Acceptable Sources of Reserves • Funds in non-cash holdings (stocks, bonds, mutual funds) are not required to be discounted • Cash surrender value of life insurance, annuities, etc • Retirement accounts used for reserves ○ Employer sponsored savings plans (like a 401k) require TOW from employer which allow for hardship withdrawal (not required for IRA) • Cash-Out proceeds • Unacceptable sources for Reserves • Reserves may not come from a 1031 exchange account • Reserves may not come from gift funds
Commission Earned on Transaction	• Commission earned from subject transaction by borrower who is a realtor or loan officer are considered to be seasoned funds usable for downpayment, closing costs, and reserves
IPC (Interested Party Contribution)	• Owner Occupied & 2nd Home – 9% for LTV<=75%, 6% for LTV>75% • NOO - 6% for all LTV's

LIABILITIES	
Subordinate Financing	• If the subordinate financing is a simultaneous close, the following is required: • A copy of the loan approval and repayment terms • A copy of the executed note • If the secondary financing is already in place the following is required: • A copy of the executed note, recorded security instrument, and signed subordination agreement must be provided to confirm the loan amount, terms, and lien status • The remaining term of the subordinate lien must be less than or equal to the term of the first mortgage

	• The subordinate lien must have a minimum remaining term of no less than five (5) years unless the financing fully amortizes prior to that time • At the closing of subject transaction, secondary financing may not have balloon payment within the first five (5) years • The secondary financing must not have a negative amortization feature • The terms of the note must provide regular monthly payments of at least the interest due with no provisions for future advances • Employer-provided secondary financing follow agency guidance • Seller carries back allowed, must meet all relevant terms listed above
Home Equity Line of Credit (HELOC)	• For qualification purposes use the following: • For an existing subordinate lien, use the payment on the credit report or monthly statement • If the payment cannot be verified use 1% of the outstanding balance • If there is no balance, then no payment will need to be used • For a simultaneous close, use the amount to be disbursed at funding
PACE/HERO	• These liens must be retired and cannot be subordinated.
Property tax estimates for new construction	• Property taxes may be calculated using Smartasset.com site using an appropriate property tax rate based on the purchase price.
Installment Debt	• The monthly payment may be excluded from the DTI calculation provided there are ten (10) or fewer payments remaining, and the payment does not exceed 5% of the borrower's qualifying income • Paying down installment debt to 10 payments or less to qualify is allowed with a DTI < 40% • Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income • Student loans, whether deferred, in forbearance, or in repayment, .5% of the unpaid balance or the actual documented payment • To exclude contingent mortgage liabilities, document that the individual making the payment is also obligated on the mortgage and document most recent 12 months timely payments. • Timeshares are considered installment debt, not a mortgage • Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments is provided showing another party is paying
Revolving Debt	The minimum payment on the credit report or current statement is used in the DTI calculation: • Revolving debt may not be paid down to qualify • Revolving debt may be excluded if the account is paid off, funds used to pay off account must be verified • If there is no minimum payment amount is listed on the credit report and no supplemental documentation to support a payment is provided, then use the greater of $10.00 or 5% of the outstanding balance • Business debt in borrower's name may be excluded with documentation to verify that the business has made 6 months of timely payments and the debt is accounted for as an expense in the business tax returns. Only allowed with full documentation income • Non-mortgage debt paid by others can be excluded if evidence of 12 months of timely payments are provided showing another party is paying
Open Accounts	For monthly paid charge accounts, also called OPEN accounts, payment will not be included but the outstanding balance amount will be netted out of available assets or cash-out proceeds. The borrower must have funds to cover the account balance in addition to any other assets required. Alternatively, the balance can be debt serviced at 5% if adequate reserves are an issue.
Alimony/Child Support/Separate Maintenance Obligations	• Monthly child support obligations with eleven (11) or more payments remaining must be included in the DTI • Alimony can be subtracted from income instead of adding to liabilities

Current Principal Residence – Pending Sale	• If the borrower's current principal residence is a pending sale, but the transaction will not close prior to the subject transaction, the current PITI and the proposed PITI must be used in qualifying
	• The current principal residence's PITI can be excluded with the following documentation:
	  ○ The non-contingent executed sales contract for the current residence AND
	  ○ confirmation that any financing contingencies have been cleared

Retirement / Savings Plan Loans	• Repayment for loans against 401K, savings plan, brokerage account, or insurance policy may be excluded from the liabilities provided the borrower can repay the debt by liquidating the assets • The assets must be reduced by the amount of the debt when calculating total assets for closing and reserves
Payoff of Debt to Qualify	• Revolving accounts may be excluded if paid to zero, account does not need to be closed. • Installment debt may be excluded if paid off and closed • Paying down an installment loan to ten (10) months is allowed - Max DTI 40% • Lease payments may not be excluded

PROPERTY	
Appraisal	• Appraisers must meet all industry standards. All appraisals must be performed in accordance with the Uniform Standards of Professional Appraisal Practice and Fannie Mae guidelines. All appraisals must conform to Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. • The appraisal should be dated no more than 120 days prior to the note • Appraisal recerts are allowed and are good for 120 days • Properties with Condition Ratings of C4 or better required • A second appraisal is required: • Loan amounts greater than $2,000,000 • The transaction is a flip (see Property Flipping section) When a second appraisal is required, the value is based on the lower of the two (2) values. The second appraisal must be from a different company and appraiser than the first appraisal. • Transferred appraisal report is allowed. Follow MCFI policy.
Third Party Appraisal Review	• An appraisal review product is required on every loan unless a second appraisal is obtained, one of the three options below is acceptable: • CDA from Clear Capital OR • ValREVIEW from Valligent OR • Collateral Underwriter (CU Score) less than 2.5 OR • A field review or a second appraisal is also acceptable – These must be from a different company and appraiser than the first appraisal. • If the CDA/ValREVIEW reflects a value of 10% or less below the appraised value, the appraised value is accepted. • If the CDA/ValREVIEW reflects a value of more than 10% below the appraised value, a field review or a second appraisal is required.

Warrantable condo	• Limited or Full Project review determined as per Fannie Mae's specific transaction eligibility.
	• Detached (site) condo units do not require a project review and are eligible for single family dwelling LTV/CLTV
	• Two-to-four-unit projects do not require a project review so long as the following are met:
	  ○ Project is not a condo hotel, houseboat, timeshare, or segmented ownership
	  ○ The priority of common expense assessments applies
	  ○ Standard insurance requirements apply

	• Project Requirements • Project has been created and exists in complete compliance with all applicable local, state and all other regulations and laws • Meets all Fannie Mae insurance requirements • Borrower is required to carry HO-6 if the master insurance does not cover walls-in with betterments and improvements • Project documents do not give a unit owner or any other party priority over the rights of the first mortgage
Restrictions on a Florida Condo Project	• Florida condo project MAX LTV/CLTV=75% • FNMA approved projects within the last 18 months only.
Property Flipping	• A property is considered a flip if either of the following are true: • The purchase price exceeds the seller's acquisition cost by more than 10% if the property was acquired 90 or fewer days prior to the borrower's purchase contract date • The purchase price exceeds the seller's acquisition cost by more than 20% if the property was acquired 91 – 180 days prior to the borrower's purchase contract date • If the property is a flip, the following requirements apply: • A second appraisal is required • If the loan is subject to Reg Z, a copy of the second appraisal must be provided to the borrowers in compliance with HPML rules • The second appraisal must be dated prior to the loan consummation date/ note date. • The seller must be the owner of record • Increases in value require commentary from the appraiser as well as recent comparable sales • Sufficient documentation to validate actual cost to improve/renovate must be provided, if applicable.
Eligible Property Types	• Single Family Residences (Attached/Detached) • 2-4 Units • PUD • Warrantable condo • Townhouses
Ineligible Properties	• Manufactured or mobile homes • Residential units with >= 5 units • Properties not readily accessible by roads that meet local standards • Properties not suitable for year-round occupancy • Leaseholds • Log Homes and log style • Condotels • Condominium projects with registration services or restrictions on owner's ability to occupy. • Cooperatives • New condo project • Unique Properties • Unpermitted additions • Mixed Use Properties • Modular Homes • Builder Model Leaseback • Boarding Houses / Bed & breakfast • Fractional Ownership/Timeshares • Group Homes, for example, assisted living and drug/alcohol rehab facilities • Mandatory Country Club Memberships • Zoning Violations • Rural • Non-warrantable projects • Properties under Construction

	• Agricultural properties, including farms, ranches, or orchards • Hawaii properties located in lava zones 1 and/or 2. • Multiple dwellings on same lot (legal ADU acceptable, limited to one) • Working Farms • C5 or C6 Property Condition Grades • Live/Work Condos • Earth Berm Homes • Done or Geodesic homes • Houseboats • Homes on Native American Land (Reservations) • Properties used for the cultivation, distribution, manufacture, or sale of Marijuana. • Theme Park Resort Properties
Minimum Square Footage Requirements	• There are no minimum GLA requirements for any of the eligible property types, however, GLA of the subject property must be considered common, must be supported by comparables in the appraisal, and present no market resistance
Declining Markets	• If the trend of property values is downward, a declining market exists and a 5% LTV reduction from the LTV product matrices for LTVs greater than 70%
Recently Listed Properties	• Non-Owner Occupied • Rate & Term: Any active listing must be cancelled prior to going to closing • Cash Out: Properties listed for sale in the past six (6) months are not allowed* • Owner Occupied and 2nd Home • Rate & Term: Properties listed at the time of application are eligible provided listing is cancelled prior to going to closing • Cash Out: Properties listed for sale in the past six (6) months are not allowed* *Note: six (6) months is counted from listing cancellation date to note date
Property Insurance	We follow standard industry insurance requirements, with the following overlays allowed • 1-4 Unit Coverage Overlays • Allow for greater than 5% deductible. Maximum of 10% • Allow for less than full replacement cost on roof coverage. One example is policies that provide for full replacement cost thru year 15, but thereafter revert to actual cash value • HOI Overlay Requirements: • The transaction reserve floor is the lesser of $30k or 12 months PITI • Files with credit exceptions are not eligible • Condo Master Coverage Overlays • Allow for greater than 5% deductible. Maximum of 10% • Allow for less than full replacement cost on roof coverage. One example is policies that provide for full replacement cost through year 15, but thereafter revert to actual cash value • Condo Master Overlay Requirements: • Regardless of transaction requirements, an HOA budget must be provided for review. Budget must contain required reserve holdback* • Files with credit exceptions are not eligible *For condos treated like an SFR (small projects or detached), please see requirements for 1 - 4 Unit Coverage
Property Zoning	• Zoning designations are determined by the City or County based on the property location, each governing entity has their own unique zoning titles or descriptions. The property's specific zoning will describe, in general, what type of activity is allowed, and the density that is allowed. Regardless of what the zoning designation is for the subject property, the property must meet the 3 requirements listed below. • The current usage of the subject property is residential • Residential must be allowed usage of the subject property zoning • Residential must be the highest and best use of the subject property, as defined by the appraiser

	• As long as the property passes the 3-question test listed above, the zoning designation is acceptable.
Non-residential Improvements	• Any non-residential improvements, like shops, storage structures, barns or animal shelters must meet the criteria listed below: • Must be minor in scope • Common for the area • They must have no impact on the property being residential in nature • They must be given only nominal contributory value by the appraiser and not impact marketability
Horse Improvements	• Must be minor in nature and consistent with owner usage only. In general, a 1 to 4 horse stable is acceptable. Small fenced off riding areas are usually acceptable. Any improvements that indicate usage for more than the owner, like grandstands, parking areas, guest quarters or excessive vehicles, will make the property ineligible. The horse improvements must meet the following test: • Must be minor in scope • Common for the area • They must have no impact on the property being residential in nature • They must be given only nominal contributory value by the appraiser and not impact marketability
Rural Properties	• Not allowed • A property is considered rural if the appraiser indicates "rural" in the neighborhood section of the report OR any two (2) of the following are present: • The property is located on a gravel road • Two (2) or Three (3) comps are more than five (5) miles from the subject property • Less than 25% of the surrounding area is developed
Acreage Limitations	• Maximum of twenty (20) acres Note: rural properties are not eligible

TEXAS 5-(a)(6)	
A Texas 50(a)(6) mortgage is a loan originated under the provisions or Article XVI, Section 50(a)(6), of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain circumstances. A Texas 50(a)(6) transaction is also known as "Texas Home Equity" and "Texas Cash Out".	
Loan Purpose	• Cash out refinance • Any cash back is considered cash-out
Occupancy	• Primary residence only • No second homes or investment properties • All borrowers must be on title and occupy
LTV/CLTV	• Max. LTV/CLTV is 80%
Ineligible Loan Types/Characteristics	• The following loan types and characteristics are not permitted: • No interest-only • No prepayment penalties • No assumability
Eligible Property Types	• Only 1 Unit properties are allowed: • SFR (attached or detached) • PUD (attached or detached) • Condominium
Ineligible Property Types	• 2-4 Units • See other "Ineligible Properties".
Urban or Rural	• The property must fall under either the "urban" or "rural" homestead definition. The common appraisal description of "suburban" has no bearing on whether the property is considered urban or rural. • A homestead is considered "urban" if: • Located within the limits of a city/municipality or a platted subdivision, AND • Served by police protection and fire protection, AND

	• At least three (3) of the following services are provided by the city/municipality or under contract to the city/municipality: o Electric o Natural gas o Sewer o Storm sewer o Water • Is no larger than 10 acres. • May consist of one or more contiguous parcels (lots must be connected) • A homestead is considered "rural" if: • Does not meet the "urban" tests listed above • For a single person, not more than 100 acres • For a family or married, not more than 200 acres • May consist of separate parcels that are not connected
Rural Properties	• Not allowed • A property is considered rural if the appraiser indicates "rural" in the neighborhood section of the report OR any two (2) of the following are present: o The property is located on a gravel road o Three (3) comps are more than five (5) miles from the subject property o o Less than 25% of the surrounding area is developed
Secondary Financing	• New subordinate financing is not permitted • HELOC subordinate financing is not permitted (existing HELOC must be closed) • An existing Texas 50(a)(6) second mortgage may not be re-subordinated to a new Texas 50(a)(6). Must be paid off at closing • Third liens are not permitted • Existing subordinate financing not subject to Section 50(a)(6) may be subordinated • Only one outstanding 50(a)(6) loan allowed on a property at any given time
One Year Seasoning	• Subject lien must close on or after the 12 months anniversary of the closing date (document signed date) of the previous 50(a)(6) loan, regardless of whether it has been paid in full or not • Borrowers may only hold one Texas 50(a)(6) loan in any 12-month period
Survey	• A survey is required for full title coverage • An existing survey may be used - must be recent (within 7 years if no changes on property) • Title company approval of the survey is required • If adjacent land is owned by a borrower, the survey must demonstrate: o The homestead property and any adjacent land are separate parcels, and o The homestead property is separately platted and a subdivided lot for which full ingress and egress is available the borrower's employment information does not have to be shown in the credit report.
Title Insurance	• A commitment of title insurance must include all standard endorsements plus the following: • Equity Loan Mortgage Endorsement (Form T-42) • Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1)
Ineligible Borrowers/Title Restrictions	• No non-occupant co-borrowers (if exist, must be deeded off title) • No signors on note that are not on title • All unmarried borrowers must be on title • Spouses, regardless of title ownership, must execute the Deed of Trust • No corporations, partnerships, or LLCs • No Foreign Nationals • Borrowers with no Social Security Number
Fees	• Borrowers may not be charged fees in an amount that exceeds 2% of the loan amount • Fees excluded from the 2% cap:

	o Third party appraisal fees (AMC portion is not excluded) o Survey fee (state-licensed or registered surveyor) o Lender's title policy and related title endorsements o Bona-fide discount points (must be documented as such) o Homeowner and flood insurance premiums o Property taxes o HOA dues o Escrows for insurance and taxes o Interest o All costs incurred in Section H that are at sole discretion of the borrower. o Lender-paid fees
Three Waiting Periods	Three separate waiting periods must be observed by the lender before closing: • 12-Day Wait • Loan may not close until on or after 12 calendar days from the receipt by the borrower of the Notice Concerning Extension of Credit (AKA: 12-Day Notice). This notice is provided as part of the Initial Disclosure package. All borrowers, owners and spouses must sign the Notice Concerning Extension of Credit • One-Day Wait The loan may not close until one (1) business day after all borrowers, owners and spouses receive a copy of the loan application and final, itemized disclosure (CD) of all points, fees, interests, costs, and charges. • The Acknowledgement of Receipt of Loan Application and Final Itemized Disclosure must be signed by all parties as evidence of their receipt of the final CD and loan application • If revised fees, charges or interest, the CD must be reissued, and a new one-day wait begins • Okay to revise payoffs, escrows, taxes & cash back without a new one-day wait • The one-day wait may be waived only in the event of a "bona fide emergency or another good cause" • One-Year Wait The loan may not close until on or after the 12-month anniversary of the closing date (document signed date) of the previous 50(a)(6) loan, regardless of whether it has been paid in full or not. • The one-year wait may be waived if the refinance is necessary to cure a violation • Borrowers may only hold one Texas 50(a)(6) loan in any 12-month period
Attorney Review	• All closing documents must be reviewed by a licensed Texas attorney prior to sending them to escrow.
First Payment Date	• The first payment date of the new loan may not be more than two calendar months from the date of closing (signature date).

TEXAS 50(F)(2)	
A Texas Section 50(f)(2) mortgage is a rate and term refinance of an existing Texas 50(a)(6). The following restrictions apply to a Texas 50(f)(2) loan	
LTV/CLTV	• Max LTV/CLTV is 80%
Loan Purpose	• ZERO cash back allowed. Proceeds to pay off only: o Existing Texas 50(a)(6) lien o Other permitted liens on homestead (property taxes, owelty lien, mechanic's lien) o o Actual costs and reserves required by lender to refinance
One Year Seasoning	• Subject lien must close on or after the 12 months anniversary of the closing date (document signed date) of the previous 50(a)(6) loan, regardless of whether it has been paid in full or not. 12-DAY WAIT

	Each loan requires a “cooling-off” period of at least 12 calendar days prior to closing. • Loan may not close until on or after 12 calendar days from the receipt by the borrower of the *Important Notice Concerning Refinancing a Home Equity Loan* (AKA: *12-Day Notice*). This notice is provided as part of the Initial Disclosure package All borrowers, owners and spouses must sign the *Important Notice Concerning Refinancing a Home Equity Loan*.

ADDITIONAL GUIDELINE REQUIREMENTS	
High Cost	• Federal, State, and Local High-Cost Loans are not permitted. Cured High-Cost loans are also not eligible.
Assumability	• Fixed rate loans are not assumable
Maximum Financed Properties	• The maximum number of financed properties to any one Borrower is limited to twenty (20) residential properties • Maximum MCFI exposure to single Borrower: $5M in unpaid principal balance or eight (8) loans • The max exposure rule is not automatic. The loans should not be secured to properties in the same micro-geographic area, for example, same block, subdivision, PUD project, or condo project. Each scenario is reviewed on its own merit and particular characteristics.
Power of Attorney	• Specific Power of Attorney (POA) is acceptable for executing closing documents, is specific to the transaction, contains an expiration date, initial 1003 is signed by the Borrower executing the POA • Not permitted on Entities: LLC, Corporations, Entity Borrowers, etc. • Not permitted on Cash-Out transactions
E-Signatures	• E-signatures are permitted with the exception of the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, Riders / Addendums, and any state regulated disclosures. These documents require a wet signature.