



Single Family Residential Closed End Second Mortgage Program

Underwriting Guidelines

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1 GENERAL POLICY

1.1 Introduction

The following Credit Guidelines establish standards and criteria in which a loan will be eligible for origination under the Axos Bank Closed End Second Mortgage Program (the "Program"). These Guidelines are designed to help understand how risk is assessed and to understand program specifics and process flow. Loans not closed with a simultaneous 1st lien (aka, a "stand alone") must follow Fannie Mae DU / Freddie Mac LP or Manual underwriting requirements plus the below overlays.

If these Guidelines are silent on a given subject, please refer to Fannie Mae, Chapter B3-1, Manual Underwriting Guidelines for the 2nd lien product.

The Credit Guidelines provide detailed requirements for eligibility but do not obligate Axos Bank (the "Lender") to originate a loan even if it satisfies these requirements. Compliance with these guides does not create a commitment by the Lender. The Lender has sole discretion to originate any loans.

State and Federal specific regulatory requirements supersede all underwriting guidelines set forth by the Lender.

Responsibilities:

Credit Guidelines must be interpreted and applied in a manner that complies with the laws and regulations established by the Consumer Financial Protection Bureau (CFPB) and any other applicable laws and regulations.

There is a no-tolerance policy as it relates to fraud. Established fraud and identity procedures for every loan will be utilized to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of 4506-C, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be eligible. Any determination of involvement and/or knowledge of misrepresentation will result in the dissolution of any business relationship. The appropriate agencies will be notified.

Additional requirements:

- Deviations from the underwriting guidelines based on compensating factors may require an exception and are required to be documented in the loan file.
- Negative Amortization Feature or Equity Participations are not permitted.
- U.S. territory loans are not allowed. Properties must be in the United States.
- Manufactured housing or unique property types, including without limitation, condotels, timeshares, agricultural properties, log homes or geodesic domes are not permitted. Mortgage loans may not finance builder inventory.
- With respect to each Mortgage Loan, (1) each Mortgagor is a natural person and (2) at the time of origination, the Mortgagor was legally entitled to reside in the United States
- Occupancy - information contained within the Mortgage Loan File, will be evaluated to determine whether the occupancy status of the related Mortgaged Property as represented by the Mortgagor is reasonable

Ability-to-Repay (ATR):

The Ability-to-Repay (ATR) Rule is the reasonable and good faith determination that a borrower can repay the loan. Under the rule, the borrower's income, assets, employment, credit history and monthly

expenses must be documented, and certain affordability calculations must be performed during the underwriting process. All closed end mortgages secured by a dwelling, regardless of loan purpose, occupancy, or lien position are subject to this section.

A reasonable, good-faith determination must be made before a loan is closed that the borrower has a reasonable ability to repay a loan. Documentation that the ATR has been met and the borrower's ATR Attestation are required. The following eight (8) underwriting factors, including proper underwriting documentation, must be evaluated using reasonably reliable third-party records:

- Current or reasonable expected income or assets
- Current employment status
- Monthly payment on the loan (calculated on the higher of the introductory rate or fully indexed rate; the maximum payment scheduled during the first five years)
- Monthly payment on secondary financing
- Monthly payment for mortgage-related obligations, such as property taxes and insurance, HOA dues, and ground rent
- Current debt obligations, alimony, and child support
- Monthly debt-to-income ratio or residual income, and
- Credit history

Compliance:

- No section 32 or High Cost
- Loans must comply with all applicable federal and state regulations
- Higher-Priced Mortgage Loans (HPML) and Higher-Priced Covered Transactions (HPCT) are permitted subject to complying with all applicable regulatory requirements. All HPML and HPCT loans require proof of an established escrow account for the first mortgage lien

PURCHASER RESERVES THE RIGHT TO ALTER, MODIFY, SUPPLEMENT AND/OR WITHDRAW ANY PORTION OF THESE GUIDELINES AT ANY TIME OR FROM TIME TO TIME. PURCHASER MAY FROM TIME TO TIME IMPOSE CREDIT AND/OR PROGRAMATIC OVERLAYS WITH RESPECT TO ANY LOANS TO BE SUBMITTED FOR PURCHASE UNDER THE PROGRAM. PURCHASER SHALL IN NO EVENT BE REQUIRED TO PURCHASE, OR BE DEEMED TO HAVE AGREED TO PURCHASE, ANY PARTICULAR LOAN IRRESPECTIVE OF WHETHER SUCH LOAN CONFORMS TO THE REQUIREMENTS SET FORTH HEREIN.

2 SUMMARY AND FEATURES

2.1 Fannie Mae Selling Guide

Must meet Fannie Mae definitions and requirements for:

- Principal Residence, Second Home, and Investment Property
- Rate and Term Refinance – Borrower must own home for one year
- Cash-Out Refinance – Borrower must own home for one year
- Single Family Residence - may be attached or detached
- Condo must be Fannie Mae warrantable

Must meet Fannie Mae definitions for:

- Credit Score (including Fannie Mae Credit Score type and version)
- CLTV – Combined Loan to Value ratio

- HCLTV – Home Equity Combined Loan to Value ratio

Please defer to Fannie Mae manual underwriting requirements for any items not addressed within this guide.

3 PRODUCT TYPES & ELIGIBILITY

Product	Qualifying Rate	Term	Amortization Term
10 Year Fixed	Note Rate	120	120
15 Year Fixed	Note Rate	180	180
20 Year Fixed	Note Rate	240	240
30 Year Fixed	Note Rate	360	360

3.1 Title Policy

Loan Amount	Title Policy Requirement
≥ \$250,000	ALTA Standard Coverage Policy insuring the second lien amount
< \$250,000	ALTA Residential Limited Coverage Junior Loan Policy - or - ALTA Standard Coverage Policy insuring the second lien amount

3.2 Geography

Forty-eight (48) US states including the District of Columbia (DC) are eligible:

- Texas is not permitted
- Tennessee is not permitted

The following US commonwealth and territories are not eligible:

- Puerto Rico, Guam, American Samoa, Northern Mariana Islands, and the U.S. Virgin Islands

3.3 Underwriting – Full Documentation

Unless otherwise addressed, Fannie Mae manual underwriting should be followed.

- All income and debts must be fully documented according to Fannie Mae manual underwriting guidelines
- Copy of first mortgage Note and billing statement must be included in loan file
- Age of credit report, employment, income, and asset documentation may not exceed 120 days from Note date

3.4 Credit Report

To determine the Representative Credit Score, select the middle score when three (3) agency scores are provided and the lower score when only two (2) agency scores are provided.

Lowest Representative Credit Score of all borrowers is used to qualify.

Borrowers must have a valid score from at least two (2) of the following three (3) agencies: Experian, Trans Union, and Equifax.

3.5 Tradelines

All borrowers must have an established credit history that is partially based on tradeline history. Mortgage history must be 0x30x12. Loans that are run and received an approve/eligible as per DU/LP are acceptable. If the loan is manually underwritten, then the primary wage earner is required to meet the minimum tradeline requirements and will have open and active tradelines that meet the following requirements:

Required Tradelines	Active Reporting Period	Min FICO Required
3 Tradelines - Or - 2 Tradelines	≥ 12 months ≥ 24 months	Per Matrix

3.5.1 Housing History

Applications must be supported by the most recent 12-month mortgage or rent pay history. A Verification of Mortgage (VOM) should be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report, including private mortgages. The VOM/VOR is reviewed for delinquencies with the greatest weight focused on the last 12 months. Verification must reflect pay history up to date of the application. If the credit report does not reflect the required pay history, other acceptable methods of a Verification are:

- VOM ordered from Mortgage Servicer
- Computer Pay History printout directly from Mortgage Servicer showing timely payments
- 12 Months of Bank Statements showing account owner and prompt payment of rent or mortgage
- Cancelled Checks front and back and most recent mortgage statement
- For private mortgages, a fully executed VOM together with either bank statements showing account ownership and timely payments debited or cancelled checks front and back along with the most recent mortgage statement is required
- If renting from a private party, either fully executed VOR or most recent lease along with verification of timely payments made (either cancelled checks front and back or bank statement showing account ownership and payments debited by landlord) are required
- If renting from a management company, either fully executed VOR or most recent lease along with payment history ledger from management company, cancelled checks front and back or bank statements showing account ownership and payments debited by management company

3.5.2 Forbearance, Deferred Payments, Modifications

Forbearance, Covid forbearance, deferred payments, or mortgage loan modification are unacceptable credit events and disqualifies borrower(s) from financing.

Examples of mortgage loan modifications are:

- Forgiveness of part of principal and/or interest on either the first or second mortgage
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness
- Conversion of any part of the original mortgage debt to a “soft” subordinate mortgage
- Conversion of any part of the original mortgage debt from secured to an unsecured debt

3.5.3 Significant Adverse Credit Event

- Bankruptcy (all Chapters except Ch. 13), Short Sale, Deed-in-Lieu, or Charge-Off Mortgage must be seasoned at least 60 months from time of application
- Chapter 13 Bankruptcy, 48 months from the discharge date or 48 months from the dismissal date
- Foreclosure must be seasoned 84 months from time of application
- If multiple derogatory credit events, must be seasoned 84 months from most recent event to date of application

3.5.4 Collections, Judgements, Liens, and Past Due Accounts

- All open judgements, garnishments, and liens (including mechanics liens or material men's liens) must be paid prior to the loan closing
- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
 - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
 - Collections and charge-offs \geq 24 months old with a maximum of \$2,500 per occurrence
 - Collections and charge-offs that have passed beyond the statute of limitations for that state (supporting documentation required)
 - All medical collections
 - Exception: IRS repayment plans with 3 months history of payments may remain unpaid
- Past due accounts must be brought current

3.6 Minimum Loan Amount

\$75,000 minimum loan amount

3.7 Maximum CLTV and Loan Amounts

Primary Residence:

- \$500,000 maximum loan amount for CLTV \leq 80.00%
- \$250,000 maximum loan amount for CLTV 80.01% - 85.00%

2nd Home/Investment:

- Maximum CLTV is 75%

3.8 Maximum Combined Loan Amount (1st & 2nd Lien)

\$2,500,000 maximum combined loan amount (1st & 2nd lien)

3.9 Subject Property Financing Restrictions

- Maximum two (2) consumer lending products on a single property inclusive of subject second lien
 - Only the existing 1st mortgage and the subject loan are permitted as liens. All other liens are not permitted (including silent seconds, solar liens, employer assistance, etc)
- 1st Lien cannot be a HELOC
- The new subject lien may pay off the existing junior lien on property

3.10 Cash Out Amount

Unlimited

3.11 Flood Insurance

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be in a community which participates in the FEMA program to be eligible for financing. Flood insurance must be maintained throughout the duration of the loan.

3.12 Homeowners Insurance

Hazard insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damage caused by aircraft, vehicle, or explosion. Axos is to be added as an additional loss payee. Follow FNMA guidance for additional information.

Existing coverage amount must be equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by insurer
- Unpaid principal balance ("UPB") of all existing liens including the subject 2nd lien, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date

2nd lien must be reflected as loss payee on declaration page.

3.13 Seasoning Requirements

Borrower(s) must own property for a minimum of 12 months. Properties that have been on the market within six months of the application date are ineligible.

3.14 Debt to Income ("DTI")

Max DTI permitted

- 50% max DTI for Primary Residence
- 45% max DTI for 2nd Homes/Investor

DTI should be recalculated based on any new debt.

If the 1st lien is an Interest Only loan, fully amortizing payment must be used to qualify.

If the underlying 1st lien is an Adjustable-Rate Mortgage ("ARM"), the higher of the fully indexed rate or note rate must be used to qualify.

3.15 Reserves

No reserves required.

3.16 Non-Occupant Co-Borrower

Non-Occupant Co-Borrowers are credit applicants that do not occupy the subject property.

- Not Eligible if a Non-Occupant Co-Borrower is on either the 1st or 2nd lien

3.17 Eligible Borrowers

- U.S. Citizens: as defined by the U.S. Department of Immigration and Naturalization Service (INS).

- Permanent Resident Aliens: as defined by INS. A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. A Permanent Resident Alien typically maintains an alien registration card (“green card”).

Other than U.S. Citizens, all Eligible Borrowers must evidence their residency status by providing applicable INS documentation.

Eligible Borrowers	Required Documents	Notes
Permanent Resident Aliens	Valid and unexpired Permanent Resident Card/“Green Card” (Form I-551) without conditions - OR - For conditional permanent residents, proof of filed Form I-751	If any green card expires within the 6 months before closing, proof of a filed I-90 is required. Front and back of documents must be provided
Non-Permanent Resident Aliens	Non-immigrant VISA (the following VISAs are acceptable): L-1, H-1B, O-1	See notes below for documentation requirement details
<p>If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer’s letter of sponsorship for visa renewal must be provided.</p> <p>If the Visa has expired at closing (date the Note is signed), a filed USCIS Form I-797 is required.</p> <p>For residents of Canada or Mexico, H1-B status stamped on an unexpired passport is acceptable.</p> <p>For H-4 and L-2 Visas (spouse or child of H-1B or L-1 Visa holder), a Visa and EAD card must be provided. EAD cards must be unexpired at closing (date the Note is signed). If the EAD card expiration is within six months of the application, the borrower must show evidence that they have applied for an extension or provide a letter from the employer indicating that they will continue to sponsor their employment.</p>		

3.17.1 Eligible Vesting

Fee Simple with Title Vesting as:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust

All parties who take title to the subject property must sign the Security Instrument.

Borrower Types	Description
Primary	The borrower who is listed first on the application or the borrower who owns the majority interest in the entity in which title will be vested.
Co-borrower	Any borrower (other than the Primary) who is jointly responsible for repayment of the loan with the Primary Borrower. All Co-Borrowers must be on title.

3.18 Ineligible Borrowers

The following Borrower types are ineligible:

- Foreign Nationals
- ITINs
- Employee Loans
- Irrevocable or Blind Trusts
- Land Trusts
- Borrowers with diplomatic immunity, as defined by USCIS
- DACA & asylum applicants
- 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
- Persons sanctioned by OFAC
- Limited Partnerships, General Partnerships, Corporations, Limited Liability Companies (“LLCs”)
- Non-Resident Aliens
- Non-Occupant Co-Borrowers

3.19 Ineligible Transactions (1st Lien)

- Piggyback/simultaneous (1st mortgage must exist prior to application date)
- Fannie Mae Homestyle, HFA, Refi Now, HomeReady, Affordable Refi and Down Payment Assistance programs
- Loans with a Negative Amortization feature
- Modification from original terms
- Loans with Term >30 years
- Loans in active forbearance or deferment
- Reverse Mortgages
- Private 1st liens
- Balloon loans
- First Lien HELOC
- Land Contracts
- CEMA transactions
- Texas properties
- Tennessee properties
- Cross Collateralized loans
- Construction Loans
- Temporary Buydowns
- Builder Bailout & Model leasebacks
- Conversion Loans
- Rent Credits
- Non-Arm’s Length
- Lease Option
- Subject Loan being used as Bridge financing
- Renovation Loans

3.20 Eligible Properties

- 1-unit Single Family Dwelling (attached or detached) (legal ADU acceptable, limited to one)
- Planned Unit Development (PUD)
- Condominium (Warrantable Only)

3.20.1 Project Review Warrantable

FNMA eligible Warrantable projects are permitted. Underwriter attestation and/or documentation clearly stating whether the property is warrantable is required. Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV. Maximum project exposure shall be \$2,000,000 or 15% of project, whichever is lower.

3.21 Ineligible Properties

- Properties located in a declining market
- Manufactured Homes
- Modular Homes
- Leasehold
- Log Homes
- Condotels
- Condominium projects with registration services or restrictions on owner's ability to occupy
- Non-Warrantable Condo Projects
- Cooperatives (CO-OPs)
- Rural Properties
- Properties with > 20 acres
- Properties listed for sale within the past 6 (six) months
- Commercial Properties
- 2-4 Units
- Vacant Lots
- Properties with values significantly more than the predominant value of the subject's market may be ineligible
- Unique Properties
- Mixed Use Properties
- Builder Model Leaseback
- Mortgage Loans financing Builder Inventory
- Boarding Houses
- Group Homes
- Fractional Ownership/Timeshares
- Assisted Living/Continuing Care Facilities
- Mandatory Country Club Memberships
- Zoning Violations
- Properties under Construction
- Agricultural Properties
- Hawaii properties located in lava zones 1 and/or 2
- Multiple dwellings on the same lot (legal ADU acceptable, limited to one)
- Working Farms
- C5 or C6 Property Condition Grades
- Work escrows are not allowed
- Live/Work Condos
- Earth Berm Homes
- Geodesic Domes
- Houseboats
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Theme Park Resort Properties

3.22 Valuation

A full appraisal (interior/exterior) is required regardless of loan amount. For loans with HPML designation, please refer to [Section 4.3](#) for additional criteria.

Appraisal Requirements:

- All appraisals must comply with and conform to USPAP and the Appraisal Independence Requirements, and any requirement for HPMLs, if applicable
- The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction
- An appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent or other interested party is not acceptable
- Assigned appraisals are acceptable, unless ordered by the Borrower
- Appraisals are good for one hundred twenty (120) days. Any appraisal seasoned greater than one hundred twenty (120) days will require a recertification of value completed by the original licensed appraiser. A recertification of value will be permitted up to one hundred eight (180) days
- Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed
- Appraisals with condition or quality ratings of C5 or C6 will not be eligible
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences

3.23 Third Party Appraisal Review

Loan files do not require a 3rd party secondary valuation product however all appraisals will undergo a review by the Lender

3.24 FEMA Disaster Areas

A list of federally declared disaster areas may be found on the FEMA website at <http://www.fema.gov/disasters>

Documentation must be obtained to confirm that the subject property has not been adversely impacted by a disaster. In addition, when there is knowledge of an adverse event occurring near or around the subject property, including but not limited to earthquakes, floods, tornadoes, or wildfires, additional due diligence is required to determine when the disaster area guidelines must be followed.

Guidelines for disaster areas should be followed ninety (90) days from the incident period ending date or the date the adverse event occurred, whichever is greater.

3.24.1 Appraisal Completed Prior to Disaster

- ✓ Interior and exterior inspection of the subject property is required
- ✓ Appraisal update or final inspection from the appraiser must be obtained
- ✓ Damage that impacts the safety or habitability of the property or damage more than \$2000 will not be eligible

3.24.2 Appraised After Disaster Incident

- ✓ Appraiser must comment on the adverse event and any effect on marketability or value
- ✓ Damage that impacts the safety or habitability of the property or damage more than \$2000 will not be eligible

3.24.3 Disaster Incident Occurs After Closing, Prior to Funding

- ✓ A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report (DAR) from Pro Teck will need to be provided
- ✓ Any indication of damage reflected on the report will require a re-inspection by the appraiser
- ✓ Damage that impacts the safety or habitability of the property or damage more than \$2000 will not be eligible

3.24.4 Verbal Verification of Employment

- ✓ A new Verbal Verification of Employment (VVOE) must be obtained if the disaster event occurs after the original VVOE was completed
- ✓ Borrower should still be employed at the same employer listed on the initial URLA and continuing to receive the same amount of income

4 ADDITIONAL GUIDELINE REQUIREMENTS

4.1 Ability to Repay

All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c)

4.2 High Cost

Federal, State, and Local High-Cost Loans are not permitted. Cured High-Cost loans are also not eligible.

4.3 Higher-Priced Mortgage Loan ("HPML")

HPML defined as secondary/subordinate financing with an APR 3.50% \geq APOR.

HPMLs are permitted with the following requirements

- Loan complies with HPML appraisal rules in Reg. Z
 - Loan must have Full Appraisal
 - Second Appraisal required under the following circumstances
 - Greater than 10% increase in sales price if the seller acquired the property in the past 90 days
 - Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days

4.4 Fraud

Axos has a zero-tolerance policy as it relates to fraud. A fraud prevention pull is required from Data Verify, CoreLogic, SAS, or a similar engine.

4.5 Maximum Financed Properties

The maximum number of financed properties for any one Borrower is limited to twenty (20) residential properties.

4.6 Prepayment Penalties

Prepayment penalties are not permitted.

4.7 Escrows

Escrows are not required.

4.8 Escrow Holdbacks

Escrow holdbacks are not allowed.

4.9 Solar Leases

PACE loans (or any similar loans with payments that are included in property taxes or take lien priority) are not eligible.

5 CLOSED END SECOND MATRIX

FICO SCORE	LOAN SIZE	MAXIMUM CLTV %	
		PRIMARY RESIDENCE	SECOND HOME / INVESTMENT PROPERTY
760+	\$75,000 - \$250,000	85%	75%
	\$75,000 - \$500,000	80%	75%
740	\$75,000 - \$500,000	80%	75%
720	\$75,000 - \$500,000	75%	75%
680	\$75,000 - \$500,000	75%	N/A

GENERAL REQUIREMENTS		
Product Type	10 year fixed, 15 year fixed, 20 year fixed, 30 year fixed	
Loan Amount	\$75,000 minimum / \$500,000 maximum	
Occupancy	Primary Residence, 2 nd Home, Investment	
Max LTV/Min FICO	85% / 680	
Max DTI	Max of 50%	
Payment History	0x30x12	
Credit Event Seasoning	Chapter 7 Bankruptcy, Short Sale, Deed-in-Lieu, Charge Off	60 months
	Foreclosure, Multiple Credit Events	84 months
	Chapter 13 Bankruptcy Dismissal or Discharge	48 months
Interest Only	Not Eligible	
Doc Type	Full Doc	24/12 Months W2, Tax Return
Second Home/Investor	Minimum FICO	720
	Max CLTV	75%

BORROWER ELIGIBILITY	
Power of Attorney	Not Eligible
Non-Occupant Co-Borrower	Not Eligible
Permanent Resident Alien	Eligible – see guidelines
Non-Permanent Resident Alien	Eligible – see guidelines

PROPERTY TYPE	
2-4 Units	Not Eligible
Non-Warrantable Condos/Co-ops	Not Eligible
Rural Properties	Not Eligible
Declining Markets	Not Eligible

CASH OUT REQUIREMENTS	
Eligibility	Unlimited Cash Out

RESERVE REQUIREMENTS	
Additional Financed Properties	Not Required
\$75,000 - \$500,000	Not Required