Single Family Residential Express Mortgage Program

Underwriting Guidelines

Effective Date: September 11, 2024

Express Mortgage Program

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Express Mortgage Program

1 INTRODUCTION

The following Credit Guidelines establish standards and criteria in which a loan will be eligible for origination under the Axos Bank Express Mortgage Program (the "Program"). These Guidelines are designed to help understand how risk is assessed and to understand program specifics and process flow.

If these Guidelines are silent on a given subject, please refer to Fannie Mae, Chapter B3-1, Manual Underwriting Guidelines, for guidance.

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 are required to be documented in the loan file and may require an exception
- Negative Amortization Feature or Equity Participations are not permitted
- High-cost mortgages (or equivalent terms) under Federal or state law are not eligible
- U.S. territory loans are not allowed. Properties must be in the United States
- Manufactured housing or unique property types, including without limitation, 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
- No Mortgage Loan was underwritten using less than twelve months of income documentation if income documentation is being used to qualify the borrower

- No Mortgage Loan underwritten pursuant to a bank statement income documentation program was underwritten using fewer than twelve consecutive months of bank statements
- With respect to any Mortgage Loan underwritten pursuant to a personal bank statement income documentation program either (a) the mortgage file has satisfactory evidence of the existence of a business bank account for the related business or (b) if satisfactory evidence of a business bank account is not provided, the amount of qualifying income for the borrower was determined under the underwriting guidelines applicable to the business bank statement income documentation program
- No Mortgage Loan was underwritten utilizing a borrower-prepared Profit and Loss Statement or a borrower-prepared Expense Letter/Statement for purposes of determining income or expenses

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. 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 any new or existing secondary financing, including any simultaneous loan that the creditor knows or has reason to know, will be made.
- 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
- Credit history

2 SUMMARY AND FEATURES

2.1 Full Doc Express

- Full Doc Express Program allows borrowers to qualify with Full Documentation (12 or 24 months)
- Housing event history (>=36 months clean) and mortgage history (1x30x12)
- Max Loan Size of $3.0mm
- Max LTV/CLTV/HCLTV of 85%
- Minimum FICO of 660
- DTI up to 50%
- 3 Months Minimum reserves
- Interest Only Eligible (Min 680 FICO, Max 80% LTV/CLTV/HCLTV)
- Cash Out can be used as reserves

2.2 Alt Doc Express

- Alt Doc Express Program allows borrowers to qualify with 1099 Reduced Doc Income, Written Verification of Employment ("WVOE"), Asset Depletion, Asset Utilization, 12/24 Month 3rd Party P&L, 12M/24M Personal and Business Bank Statements
- Housing event history (>=36 months clean) and mortgage history (1x30x12)
    - WVOE mortgage history (0x30x24)
- Max Loan Size of $3.0mm
- Max LTV/CLTV/HCLTV of 85%
- Minimum FICO of 660
- DTI up to 50%
- 3 Months Minimum reserves
- Interest Only Eligible (Min 680 FICO, Max 80% LTV/CLTV/HCLTV)
- Cash Out can be used as reserves

2.3 DSCR Express

- DSCR Express Program is for professional investors with the following derogatory housing event history (>=36 months clean) and mortgage history (1x30x12) seeking a business purpose, non-owner-occupied loan
    - First Time Investors are allowed provided that the DSCR is > 1.0, 12 months reserves and max 75% LTV
- Debt Service Coverage Ratio = Gross Rent/PITIA (Amortizing loan) or Gross Rent/ITIA (Interest Only)
- No personal income to qualify
- Max Loan Size of $3.0mm
- Max LTV/CLTV/HCLTV of 80%
- Minimum FICO of 700
- Interest Only acceptable with restrictions
- 3 months minimum reserves
- Cash Out can be used as reserves

2.4 Product Types

Product	Term	Interest Only Term	Amortization Term
30 Year Fix	360	N/A	360
30 Year Fix IO	360	120	240
40 Year Fix IO	480	120	360

3 BORROWER ELIGIBILITY

3.1 Eligible Borrowers

All borrowers must be individual, natural persons.

- U.S. Citizens: as defined by USCIS.
- Permanent Resident Aliens: A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States.
- Non-Permanent Resident Aliens: A Non-Permanent Resident Alien is an individual who is not a U.S. Citizen but lives in the U.S. under the terms of an applicable Visa. Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Acceptable Visas are listed below.

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

<table>
<tr><th>Eligible Borrowers</th><th>Required Documents</th><th>Notes</th></tr>
<tr><td>Permanent Resident Aliens</td><td>Valid and unexpired Permanent Resident Card/"Green Card" (Form I-551) without conditions
- OR -
For conditional permanent residents, proof of filed Form I-751</td><td>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</td></tr>
<tr><td>Non-Permanent Resident Aliens</td><td>Non-immigrant VISA (the following VISAs are acceptable): L-1, H-1B, O-1</td><td>See notes below for documentation requirement details</td></tr>
<tr><td colspan="3">If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
If the Visa has expired at closing (date the Note is signed), a filed USCIS Form I-797 is required.
For residents of Canada or Mexico, H1-B status stamped on an unexpired passport is acceptable.
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.</td></tr>
</table>

3.2 Eligible Vesting

Fee Simple with Title Vesting as:

- Individual
- Joint Tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Vesting in a life estate is not permitted

Vesting is permitted in an Entity for business purpose investment properties and 2nd homes with the following requirements:

- Entity must be domiciled in a U.S. state
- Business structure is limited to a maximum of four (4) owners/ members
- Each Entity owner / member must be on loan and must sign the security instruments
- Power of Attorney is not permitted when vesting in the name of an Entity

When vesting in an Entity, for each business type, the following documentation must be provided:

- **Limited Liability Company (LLC)**
  - Entity Articles of Organization, Partnership, and Operating Agreements as required
  - Tax Identification Number (Employer Identification Number – EIN)
    - In any case where a sole proprietor is using SSN in lieu of EIN, an UW cert or supporting documentation must be provided
  - Certificate of Good Standing
  - Certificate of Authorization for the person executing all documents on behalf of the Entity
- **Corporation**
  - Filed Certificate/Articles of Incorporation (including all Amendments)
  - By-Laws (including all Amendments)
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the business is incorporated
  - Tax Identification Number (EIN)
    - In any case where a sole proprietor is using SSN in lieu of EIN, an UW cert or supporting documentation must be provided
  - Borrowing Resolution/Corporate Resolution granting authority of signor to enter loan obligation
  - Receipt of current year franchise tax payment or clear search (only required where applicable per state)
- **Partnership**
  - Filed Partnership Certificate (if a general partnership, filing with the SOS may not be required)
  - Partnership Agreement (and all Amendments)
  - Certificate of Good Standing (issued by the Secretary of State (SOS) where the Partnership is registered)
  - Tax Identification Number (EIN)
    - In any case where a sole proprietor is using SSN in lieu of EIN, an UW cert or supporting documentation must be provided
  - Limited partner consents (where required by partnership agreement)

All parties who take title to the subject property must sign the Security Instrument. All parties to the loan do not have to be on title.

NOTE: Official documentation issued by a CPA, the state, or IRS may be used to satisfy documentation requirements. Fillable PDF's (ie W9s) or emails from the borrower are not sufficient.

3.3 Ineligible Borrowers

- Foreign Nationals, and all Foreign Nationals as defined by the U.S. Citizenship and Immigration Services (USCIS)
- All Persons with Diplomatic Immunity, as defined by the U.S. Citizenship and Immigration Services (USCIS)
- Deferred Action for Childhood Arrivals (DACA) & asylum applicants
- Persons from OFAC sanctioned countries: https://sanctionssearch.ofac.treas.gov/
- Limited Partnerships, General Partnerships, Corporations, Limited Liability Companies ("LLCs")
- Employee Loans
- Trusts of any kind cannot be the borrower, but title may be held in an inter-vivos revocable trust
- ITIN Borrowers residing in the U.S.
- 501(c)(3) Organizations
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts
- Trusts or business entities where a Power of Attorney is used
  - Power of Attorney is not permitted on cash-out transactions
- Persons sanctioned by OFAC
- Businesses or Persons whose income is derived from the cannabis industry

3.4 Borrower Types

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.
First-time Homebuyer (FTHB) *	An individual who: i. Is purchasing the security property ii. Will reside (owner-occupied) in the security property as a principal residence or second home; and iii. Had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property
Non-borrowing Occupant *	Any individual residing in the security property who is not considered during the loan qualifying process. A Non-Borrowing Occupant on title will be required to execute applicable documents to create a valid lien.
Non-occupant Co-Borrower ("Co-signer") *	An individual who: i. May or may not have any ownership interest in the property as indicated on title ii. Signs the mortgage or deed of trust note

	iii. Has joint liability for the note along with the Primary Borrower iv. Does not have a vested interest in the property sales transaction, i.e. is not a seller of the property, is not an existing tenant, is not the builder or the real estate broker (Will NOT require occupant ratios) Note (a): A family relationship is not required provided the transaction is considered an arm's length transaction. Note (b): The continuity of obligation requirement on a refinance transaction is considered met if one of the current owners is on the loan application.
* Not permitted on DSCR Express	

4 OCCUPANCY ELIGIBILITY

Occupancy Types	Description
Primary Residence (Full and Alt Doc Express) *	A Primary Residence is a property that the borrower will occupy or currently occupies as their primary residence. If there are multiple borrowers only one needs to occupy the property and take title. FTHBs are allowed. Note: Parents or legal guardians wanting to provide housing for their handicapped or disabled adult child **OR** children wanting to provide housing for their parents are not considered to be primary residence transactions. Otherwise, see FNMA Guides for Primary Residence
Second Home (Full and Alt Doc Express) *	A Second Home is a property that is located a reasonable distance from the borrower's primary residence and is occupied by the borrower for some portion of the year. The property must be suitable for year-round occupancy and cannot be used as a rental property. FTHBs are allowed. Second homes are limited to the following: ✓ One Dwelling Unit ✓ Condominium ✓ PUD ✓ Townhouse
Investment Property (Full and Alt Doc Express) *	An Investment Property is defined as a 1 to 4-unit residential property that the borrower (nor any relative of the borrower) does not occupy. Requirements: ○ First Time Investor(s) are allowed with verified 12-month housing payment history. ○ All investment property programs require a signed *Business Purpose and Occupancy Affidavit*.
Investment Property (DSCR Express)	An Investment Property is defined as a 1 to 4-unit residential property that the borrower (nor any relative of the borrower) does not occupy. Requirements: ○ First Time Investor(s) are permitted with minimum 1.00 DSCR, 12 months reserves and max 75% LTV.

	○ All investment property programs require a signed *Business Purpose and Occupancy Affidavit*. ○ Any loan whereby the proceeds are used for personal, family, or household purposes is considered a consumer transaction and is ineligible for the DSCR Express Program. This includes cash-out on an investment property where the loan proceeds are for any personal use.
* See Express Product Matrix for LTV and FICO restrictions	

5 TRANSACTION ELIGIBILITY

5.1 Purchase

Purchase money mortgages are mortgage transactions in which the loan proceeds are used to purchase the subject property. This is evidenced by a Contract Sales or Purchase Agreement that has been executed by the applicant (buyer who is a party to the transaction) and the seller.

Additional requirements:

- First-time Home Buyers
  - Must be Primary Residence or Second Homes only.
    - Maximum DTI is 45%
  - Not permitted for DSCR Express.
- Non-Arm's Length Transaction
  - A non-Arm's Length transaction is a transaction between family members, co-workers, friends, or anyone associated with the transaction such as the listing agent, mortgage lender or broker.
  - Not permitted for DSCR Express.
  - The following are required if the purchase of the subject property is a non-arm's length transaction:
    - Primary Residence: The property must be the borrower's primary residence.
    - Gift of Equity is eligible: A gift of Equity occurs when equity in a property is gifted from the owner to the borrower when the borrower and owner are related.
    - Examples of Non-Arm's Length Transactions:
      - Relatives: defined by blood, marriage, adoption, or legal guardianship. The transactions between parents, siblings, grandparents, aunt, uncle, cousin, step-child or spouse is considered Non-Arm's Length.
      - Employee/Employer
      - Landlord/Tenant
      - Home Builders
      - Real Estate Brokers/Agents
      - Third-Party Service Providers
      - Lender Employees
      - Owner Financed
- Delayed 1031 Exchanges only are allowed for down payment and cash to close only
- HELOCs and 2^{nd} liens are not permitted

5.2 Rate / Term Refinance

A Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the existing first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepays, or a court ordered buyout settlement.

A seasoned non-first lien mortgage is a purchase money mortgage, or a closed-end or HELOC mortgage that has been in place for more than 12 months with no draws greater than $2,000 in the past 12 months. HELOC withdrawal activity must be documented with a Transaction History from the HELOC account.

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the loan application. Exceptions are allowed in the following cases:
  - The borrower acquired the property through an inheritance or was legally awarded the property (e.g. divorce, separation, dissolution of domestic partnership)
  - The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust
- Cash-out Limit
  - Cash-out to the borrower limited to the greater of 1% of the loan amount or $2,000.
- Current appraised value is utilized for LTV calculation purposes
- Sale Restriction
  - Property must be removed from listing for at least one month prior to application.
  - LTV will be based on the lesser of the list price or appraised value when listed within the most recent three months of the application date

The new Rate/Term Refinance Loan amount is defined and limited by the following:

Rate / Term Refinance
Current first lien mortgage payoff amount + Any seasoned non-first lien mortgage payoff amounts + Closing costs (must be reasonable and within market standards) + Prepayment fees + Court ordered buyout settlement (if applicable) = New Loan Amount

5.3 Cash-out Refinance Transactions

A Cash-out Refinance Transaction occurs when an existing mortgage lien is paid-off with the proceeds of a new first mortgage and the excess proceeds are distributed to the borrower. A Cash-out Refinance Transaction also occurs when a borrower obtains a mortgage for a property that is currently owned free and clear and the proceeds from the new loan are distributed to the borrower. All excess proceeds eligible for distribution to the borrower are net of customary fees, prepayment fees and other related closing costs.

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- Power of Attorney (POA) is not permitted for cash-out transactions
- Cash back as it relates to the maximum limits is defined as "cash in hand" to the borrower
- Maximum cash out is unlimited for LTV ≤ 65%. For LTV > 65%, maximum cash out is $1,000,000
- Borrower on Title:
  - At least one of the borrower on the new loan must be an owner (on title) of the subject property at the time of the loan application
- A Cash-out Purpose Letter is required
- Net proceeds from a cash-out transaction may be used to meet reserve requirements
- Sale Restriction:
  - Property must be removed from listing for at least three months prior to the Note date
  - For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value
- LTV/CLTV Limit:
  - If the subject property is owned for less than six months (Note to Note), then a 5% reduction to the max LTV is required and the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value
    - Proof of improvements is required
    - Proof of purchase price is required as evidenced by the final Closing Disclosure (CD) from the property purchase
  - No waiting period is required if the borrower acquired the property through an inheritance or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership. LTV/CLTV is based on the current appraised value
- Delayed Financing:
  - Borrowers who have purchased a subject property within the last six months preceding the disbursement date of the new mortgage are eligible to receive cash back with the loan being priced and treated as a Cash Out Refinance if the following requirements are met (Also see FNMA Guides for additional information):
    - The original purchase was an Arm's Length Transaction
    - The original purchase transaction is documented by the Settlement Statement which confirms that no mortgage financing was used to obtain the subject property
    - The preliminary title report must confirm that there are no existing liens on the subject property
    - The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid fees, and points on the new mortgage loan (subject to maximum LTV and CLTV ratios for cash-out transactions based on the current appraised value)
    - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), then all cash-out proceeds are to be used to pay-off or pay-down the loan used to purchase the property
      - ✓ Settlement Statement for the refinance transaction must reflect the above

        - ✓ Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio/DSCR calculation for the refinance transaction
        - ✓ Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan
    - Source of funds must be documented. Examples of proper documentation include bank statements, personal loan documents, 401(k) withdrawal statements, or evidence of a HELOC on another property

5.4 Subordinate Financing

Subordinate financing is permitted on Full Doc Express and Alt Doc Express qualification provided the conditions below are met. Subordinate financing is not permitted on DSCR Express.

- The subordinate financing doesn't have a negative amortization or interest only feature
- Subordinates with prepayment penalties are not allowed
- All subordinate financing must be from a Financial Institution (i.e. no private party)
- Subordinate financing payment must be included in the DTI calculation
- Max LTV/CLTV cannot exceed Max LTV in Express Product Matrix

Required Documentation for subordinate financing:

- Copy of the subordinate Note
- Copy of the Subordination Agreement

5.5 Ineligible Transactions

- CEMA
- Texas Home Equity (TX50(a)(6))
- Assumable loans
- Construction to Permanent
- Loans with Temporary Buydowns
- Builder Bailout Loans
- Model Leasebacks
- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- Non-Arm's Length Transactions (on Second Homes and Investment Properties)
- Assignments of the contract to another buyer
- Graduated Payment Mortgage Loans
- Ground leases
- Buydown Mortgage Loans
- Pledged Asset Loans
- Convertible Mortgage - allows an ARM to convert to a Fixed Rate Mortgage
- Periodic Payment Loans - Loans must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan
- Payoff of a loan with equity sharing features
- Loans with a negative amortization feature
- Simple Interest Loans

6 CREDIT ELIGIBILITY

6.1 Analysis of Credit

Data found in credit reports provide pertinent information about an applicant's credit history and borrowing habits. Applicant information sourced from places such as a Residential Mortgage Credit Report (RMCR) or public records can help to build an applicant's credit profile and to meet eligibility requirements described in this section.

6.1.1 General Requirements

- Merged In-file Credit Report is required and must include reporting from all three national credit repositories
- The Credit Report should be dated within 120 days of the date the borrower(s) sign the Note and Mortgage
- An Undisclosed Debt Notification (UDN) is required within 10 days of closing date. Verification of monitoring document needs to clearly show date issued, created, or printed within 10 days of closing date showing actively monitoring
- In general, an applicant's Credit Report will be evaluated to determine their willingness to pay debts. Among other things, the Credit Report will be reviewed for:
    - Age of accounts
    - Late payments frequency, severity, aging
    - Account balance size
- A written explanation for credit inquiries within the past 90 days is required for Full Doc Express and Alt Doc Express (this not required for DSCR Express)

6.1.2 Credit Scores

FICO® is a credit score developed by FICO, previously known as Fair Isaac Corporation. FICO scores are derived by a credit-scoring model used to predict the likelihood of a default occurring. FICO scores are among the most important factors in determining the customer's likelihood of debt repayment. The higher the FICO score, the lower the probability of default.

A minimum of 2 credit scores are required to be provided for each borrower and are used to determine the qualifying credit score for loan approval. 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.

NOTE: If the borrower's credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is acceptable as longs as:

- Credit data is available from two repositories,
- A credit score is obtained from at least one of those two repositories, and
- A tri-merged in-file report was requested

6.1.3 Tradeline Requirements

6.1.3.1 Full Doc Express and Alt Doc Express

- All borrowers should have an established credit history that is partially based on tradeline history

- If the Primary Wage Earner has 3 credit scores reporting on credit, then the minimum credit tradeline requirements are considered met
- If the Primary Wage Earner does not have 3 reporting scores, then the borrower(s) are required to meet the minimum tradeline requirements in section 6.1.3.3

6.1.3.2 DSCR Express

- All borrowers must have an established credit history that is partially based on tradeline history.
- If a Borrower has three credit scores reporting on credit, then the minimum credit tradeline requirement for that borrower has been met
- If a borrower does not have 3 reporting scores, then the borrower(s) must have open and active tradelines that meet the requirements in section 6.1.3.3

6.1.3.3 Tradeline Table

Required Tradelines	Active Reporting Period	Min FICO Required	Max DTI Required
3 Tradelines **- Or -** 2 Tradelines	≥ 12 months ≥ 24 months	N/A (for Full and Alt Doc Express) Per Matrix (for DSCR Express)	N/A (for Full and Alt Doc Express) Per Matrix (for DSCR Express)

Borrowers without the minimum trade lines indicated in the table may qualify if there is a minimum of:

- At least four years of established credit history as follows:
    - Eight or more tradelines reported
    - At least one tradeline active in the last 12 months, defined as the last activity within 12 months of the credit report date, and
    - At least one of these tradelines must be a mortgage tradeline and may be counted as the active tradeline

6.2 Housing History

6.2.1 Full Doc Express and Alt Doc Express

6.2.1.1 Housing History Greater than 12 Months

Applications must be supported by the most recent 12 months mortgage and/or rent pay history (24 months is required for WVOE loans). A VOM must be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report including private mortgages. Verification needs to reflect pay history up to date of application and must be current at closing. If Credit Bureau Report does not reflect the pay history required, other acceptable methods of verification are as follows:

For mortgage payments (any of the following):

- VOM ordered from Mortgage Servicer,
- Electronic pay history printout obtained directly from Mortgage Servicer showing timely payments,
- Bank statements showing account ownership and timely payments of mortgage debited by Mortgage Servicer,
- Cancelled checks front and back and the most recent mortgage statement, or

- For private mortgages, provide a fully executed VOM together with either bank statements showing account ownership and timely payments debited by Mortgage Servicer or cancelled checks, front and back, along with the most recent mortgage statement showing prompt payment of mortgage

For rental payments:
- If renting from a private party –
  - either fully executed VOR or most recent lease for the property address in question, and
  - verification of timely payments made (either front and back copies of canceled checks or bank statements showing account ownership and payments debited by landlord)
- If renting from a management company –
  - either fully executed VOR, or
  - most recent lease, and
    - payment history ledger from management company, or
    - front and back canceled checks or bank statements showing account ownership and payment debited by management company

NOTE: Any properties owned free and clear by the borrower(s) are considered as a 0x30 housing history for grading purposes for each month the property has been owned free and clear (e.g. a property owned free and clear for the last 12 months satisfies the housing history requirement).

6.2.1.2 No Housing History or Less than 12 Months Verified

Any borrower who has not made at least 12 months of housing payments on any property (or as a tenant in a rental situation) in the most recent 12 months are subject to the restrictions outlined below. NOTE: If a loan application/1003 shows a rental history/property owned in the past 12 months, a fully executed VOR/VOM must be obtained for those months reflecting paid as agreed (this does not include property that is documented as rent free).
- Primary residence only
- Minimum of the greater of 6 months reserves or of the months of reserves required per the applicable Matrix
- 10% minimum borrower contribution
- Maximum 45% DTI
- Fully executed VOR/VOM must be obtained for all month's available reflecting paid as agreed, if applicable

Borrowers living rent free at their primary residence may be eligible but only if they live with a non-borrowing spouse. This is still considered no housing history and subject to the restrictions mentioned in this guide. To be eligible, the non-borrowing spouse must provide a rent-free letter and evidence of an acceptable 12-month housing payment history (mortgage or rent payment). Borrowers living rent free with anyone other than spouse are not eligible however could be reviewed for exception on a case-by-case basis with strong compensating factors.

6.2.2 DSCR Express

6.2.2.1 Housing History Greater than 12 Months

Acceptable housing history requires evidence that a borrower has made a housing payment for at least the last 12 months. Housing history is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. For these properties, VOMs are required for any outstanding mortgages including private mortgages. No additional documentation is required to support the VOM. VOMs dated within 30 days of the application date are not required to be updated unless the VOM is more than 60 days old as of the Note date. If the borrower is renting their primary residence, a VOR from the landlord is required with no additional documentation.

NOTE: Properties owned free and clear are considered 0x30 for grading purposes for each month the property has been owned free and clear (e.g. a property owned free and clear for the last 12 months satisfies the housing history requirement).

- Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required. However, any mortgage that is reported to the credit bureaus is subject to the housing rating requirements per the Express DSCR Matrix

6.2.2.2 No Housing History or Less than 12 Months Verified

Borrowers who live rent free at their primary residence are not considered ineligible if they are an experienced investor that owns other REO that meets the 12-month housing history requirement. The housing history must be documented by an acceptable mortgage payment history or free and clear ownership. A "rent-free" letter of explanation from the homeowner is required.

Borrowers who do not have a complete 12-month housing history are ineligible for the program.

6.3 Liabilities

- **Installment** loans (monthly obligations with fixed payments and terms) must be included in the borrower Debt-to-Income Ratio
  - Excluded from DTI:
    - Payments of 10 months or less (if the payment exceeds 5% of the borrower's qualifying income, then the remaining payments must be included in the DTI)
    - Any installment debt that is paid prior to or at closing can be excluded from the DTI. Supporting documentation is required to verify that these debts have been paid
- **Revolving** Debt is an open-ended debt obligation in which the principal balance may vary each month. The minimum required payment stated on the Credit Report, or the current account statement must be used to calculate DTI. If no payment is stated on the Credit Report, the greater of $10 or 5% of the current balance should be included in the DTI unless there are sufficient documented reserves (in excess of the minimum reserves requirement) to cover the full reporting account balance
  - Excluded from DTI:
    - Revolving accounts can be paid off prior to or at closing to exclude the payment from DTI. Supporting documentation such as a credit supplement or verification from creditor is required. Funds used for payoff must be sourced if the account balance is paid prior to closing
- **Lease Obligations** must be included in the DTI regardless of the time remaining on the lease
- **Child Support**, **Alimony or Maintenance** Obligations must be current at the time of application and must be included in the DTI. The loan file should contain supporting documentation (such as

a final Divorce Decree, Legal Separation Agreement or Court Order) evidencing the obligation. If payments are delinquent, then they must be brought current prior to the loan closing

- **Contingent Liabilities** are an outstanding debt obligation that has been assigned to another party, but the creditor has not released the borrower from the obligation. Contingent Liabilities must be included in the DTI
  - Excluded from DTI:
    - If a party was obligated to buy out the borrower because of a divorce or separation, then the loan file should include the Separation Agreement and or the Divorce Decree/Court Order that shows transfer of ownership. In addition, the current obligation on the premise must be current
    - Debts paid by others can be excluded from the DTI ratio if the debt is being paid in a satisfactory manner by another party for the past 6 months. Acceptable documentation includes cancelled checks or bank statements that consistently show another party making at least the past 6 payments
- **Paystub deductions** will be reviewed and are included in DTI (excluding 401(K) repayments)
- **Authorized User** accounts may not be considered in the underwriting decision except in certain circumstances such as those listed here:
  - Another borrower in the mortgage transaction is the owner of the tradeline,
  - The borrower is an authorized user on a spouse's credit report tradeline, or
  - The borrower can provide written documentation that he or she has made at least 50% of the payments of the monthly payment on the account for at least 12 months preceding the date of the application
- **Student Loan** payments and deferment will be reviewed in accordance with FNMA guides

6.3.1 Credit Reporting for Business Debt

Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well.

If business debt is reflected on a personal credit report:

- If the business debt is less than 6 months old, then the payments must be included in the debt-to-income ratio
- If the business debt is greater than or equal to 6-months old, the debt may be omitted from the debt-to-income ratio if the borrower provides documentation that the borrower's business is making the payments on these debts. Acceptable documentation includes the following:
  - ✓ Canceled Checks/Bank Statements. Most recent 6 months of canceled checks drawn from the business account or 6 months of bank statements showing the debt is paid from the business account
  - ✓ Tax Returns. Returns must reflect debt payments as business expense deductions

6.3.2 Credit Counseling, Collections, Judgements, Liens

- **Judgements, Garnishments** and **Liens** (including mechanics liens or material men's liens) are required to be paid off prior to the loan closing
- **Credit Counseling** is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan

    - If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, then exclude these balances from the charge-off and collection limits listed below. The monthly CCCS plan payment must be included in the DTI calculation
    - If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion
- **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 ≥ 24 months old with a maximum of $2,500 per occurrence
    - Collections and charge-offs that have passed beyond the statute of limitation 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

6.4 Credit Events

6.4.1 Forbearance, Deferred Payments, Modifications

- COVID Forbearance must be released and fully current
- Non-COVID deferred payments are unacceptable credit events and disqualify borrower(s) from financing
- Mortgage Loan Modifications are acceptable with 36 months seasoning, minimum 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are:
    - Forgiveness of a portion 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 portion of the original mortgage debt to a “soft” subordinate mortgage
    - Conversion of any portion of the original mortgage debt from secured to unsecured

6.4.2 Significant Adverse Credit

Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off Mortgage and or Foreclosure must be seasoned at least 36 months from time of application.

7 FULL DOC EXPRESS

All Wage Earner loans require an executed 4506-C and income will be calculated in accordance with the most recent FNMA Guides.

- 24 Month Wage Earner
- 24 Month Self Employed borrower
- 12 Month Wage Earner
- 12 Month Self Employed borrower

Express Mortgage Program

7.1 Documentation Requirements

7.1.1 Wage Earner

Required Documentation	24 Month Wage Earner	12 Month Wage Earner
Paystubs	Current paystub within 30 days of application date that includes all year-to-date earnings	Current paystub within 30 days of application date that includes all year-to-date earnings
W-2 Forms	Most recent two years	Most recent one year
Personal Tax Returns	Most recent 2 years 1040s including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment income, capital gains, etc)	Most recent 1 year 1040s including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment income, etc)
VVOE	10 business days prior to Note date	10 business days prior to Note date
NOTE: if tax returns are on extension, then the borrower will need to supply their most recently filed tax return		

7.1.2 Self Employed

Required Documentation	24 Month Self-Employed	12 Month Self Employed
Personal Tax Returns	Most recent 2 years 1040s plus YTD P&L [1]	Most recent 1-year 1040 plus YTD P&L [1]
Partnership Returns	Most recent 2 years 1040s, and 1065s or 1120Ss, plus YTD P&L	Most recent 1-year 1040, and 1065 or 1120S, plus YTD P&L
K-1s (if applicable)	Most recent 2 years	Most recent 1 year
Corporate Tax Returns	Most recent 2 years 1040s and 1120s, plus YTD P&L	Most recent 1 year 1040 and 1120, plus YTD P&L
VVOE	20 business days prior to Note date	20 business days prior to Note date
Third Party Verification of Business	Verification Business has been established min of 2 years • From 3rd party such as CPA, regulatory agency, or the applicable licensing bureau; or • By verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. NOTE: the	Verification Business has been established min of 2 years • From 3rd party such as CPA, regulatory agency, or the applicable licensing bureau; or • By verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance. NOTE: the lender will document the source of the information

	lender will document the source of the information obtained and the name and title of the lender's employee who obtained the information	obtained and the name and title of the lender's employee who obtained the information
NOTE: if tax returns are on extension, then the borrower will need to supply their most recently filed tax return and a signed P&L thru the most recent quarter and a P&L from the prior year. [1] YTD P&L is not required when tax returns are being used for rental income only		

7.2 Declining / Increasing Income

If income is declining year-over-year, then the lowest income year will be used to qualify the borrower. A letter of explanation detailing the reason for the decline and the possibility of further income deterioration is required.

If a borrower's income has grown at a pace greater than 20% per annum, then an average of the last two years' income will be used. The borrower must have the capacity to repay the loan and meet ATR requirements.

7.3 Self-Employment Analysis

7.3.1 Business Verification

- A Third-Party Verification of the existence of the borrower's business is required within 20 business days of the Note date
    - Verification must be from a third-party, such as a CPA, Enrolled Agent, CTEC or Chartered Tax Adviser, or a Third-party Licensed Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only), a Regulatory Agency, or an applicable Business License Verification of the business to include a phone listing and address using an independent third-party, i.e., Internet Search

7.3.2 General Requirements

- Applicants must own at least 25% of a business to be considered self-employed
- Applicants must have been successfully self-employed for a minimum of two full years
    - If the business is stable and shows an upward trend, then the income used for the applicant is averaged over the 2 most recent years' Form 1040s
    - Case-by- case determinations will be made if the business shows a decreasing/downward trend
- A borrower may qualify with less than 2-years but more than 1-year of self-employment with the same business if the borrower can document at least two years of documented previous successful employment in the same line of work in which the person is self-employed or 1-year of employment and formal education or training in the same line of work
- Copies of all required business licenses are required
- YTD P&L required

7.3.3 Cash Flow Analysis

When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation. When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate enough income to enable these borrowers to meet their financial obligations.

- If the Schedule K-1 provides confirmation that distributions have been made equivalent to the business income being qualified OR the business has adequate liquidity to support the withdrawal of earnings, no further documentation of business liquidity is required
- If the Schedule K-1 does not support distributions or adequate liquidity, the most appropriate business liquidity formula based on how the business operates should be used to determine liquidity:
    - Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
        - Quick Ratio = (current assets — inventory) ÷ current liabilities
    - Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
        - Current Ratio = current assets ÷ current liabilities

7.3.4 Requirements for Corporate Structures

The legal structure of a business determines how income/loss is reported to the IRS, how its taxes are paid and how it accumulates capital. Legal structures also determine the extent of each owner's liability. The five principal business structures are:

7.3.4.1 Sole Proprietorship

Business income, expenses and taxable profits are reported on Schedule C of the Individual Tax Return. Required documentation for a Sole Proprietorship include:

- Federal Individual Income Tax Return Form 1040 for the most recent 2 years including Schedule C. The tax returns must be signed by the borrower(s) with all applicable schedules
- YTD P&L and Balance Sheet prepared by borrower or CPA

7.3.4.2 Partnership (General or Limited)

Two or more owners are joined by contract to conduct business and will share profits and losses according to the partnership agreement. Income taxes are paid by the individuals since the partnership itself is not required to pay taxes. Partnership documentation required:

- Federal Business & Personal Tax Returns for the most recent 2 years. The tax returns must be signed by the borrower(s) with all applicable schedules
- Schedule K-1 (Partners share of Income) for the most recent 2 years
- Corporate Resolution
- YTD P&L and Balance Sheet prepared by a CPA or borrower

7.3.4.3 Limited Liability Company (LLC)

An LLC is a business structure that blends the tax efficiencies of a partnership and the limited liability of a corporation. LLCs report profit/loss on IRS form 1065 and each member-owner's share of that profit/loss is reported on Schedule K-1. An LLC pays no tax on its income. Each member-owner uses the information on the K-1 to report their share of the LLC's net profit/loss on their individual IRS Form 1040 (regardless of whether the member-owner receives a cash distribution from the LLC). LLC documentation required:

- Federal Business & Personal Income Tax Returns for the most recent 2 years. The tax returns must be signed by the borrower(s) with all applicable schedules
- Schedule K-1 (Partner's Share of Income) for the most recent 2 years
- Corporate Resolution
- YTD P&L and Balance Sheet prepared by a CPA or borrower

7.3.4.4 S Corporation

An S Corp is a legal entity that has a limited number of stockholders that elect not to be taxed as a regular corporation. Business gains and losses are divided among and passed through to stockholders. The stockholders are taxed at their individual tax rate for their proportionate share of ordinary income, capital gains and other taxable items. An S Corp provides many of the benefits of partnership taxation and at the same time provides the owners with limited liability protection.

The ordinary income from an S Corporation's business is reported on IRS Form 1120S with each shareholder's share of income reported on Form 1120S's Schedule K-1. Cash distributions from an S Corp to a borrower will be reviewed and considered when evaluating the cash flow of the S Corp. S Corp documentation required:

- Federal Individual Income Tax Return Form 1040 for the most recent 2 years. The tax returns must be signed by the borrower(s) with all applicable schedules
- Schedule K-1, Shareholder's share of income, deductions, credits etc., for the most recent 2 years
- Corporate Resolutions
- IRS Form 1120S Income Tax Return for the S Corp's most recent two years (if the ownership is greater than or equal to 25%)
- YTD P&L and Balance Sheet prepared by a CPA or borrower

7.3.4.5 C Corporation

A C Corporation is a legal tax paying entity with its own rights, privileges and liabilities separate from those of its owners. A C Corporation can sue, be sued, hold, convey, or receive property, enter contracts under its own name and doesn't dissolve when ownership changes. C Corp documentation required:

- Federal Individual Income Tax Return Form 1040 for the most recent 2 years. The tax returns must be signed by the borrower with all applicable schedules
- Corporate Resolutions
- IRS Form 1120 Income Tax Return for the C Corp's most recent two years
- YTD P&L with Balance Sheet prepared by a CPA or borrower
- Business income from a C-Corp cannot be considered unless the borrower is 100% owner of the corporation (i.e. only the borrower's wage income can be qualified)

NOTE: YTD financials from other entities (whose income is not needed to qualify) are not required if the previous two years' tax returns show positive income.

7.4 Additional Sources of Income

Applicants with unscheduled income are eligible borrowers according to the following guidelines and requirements:

7.4.1 Bonus/Overtime/Commission Income

- A two-year history of bonus income receipt is required
  - For borrowers in the same line of work with different employers, they will be considered on a case-by-case basis
- In addition to a current paystub and W2s, a Written VOE (WVOE) must break down bonus, commission and/or overtime pay for the current year as well as the prior 2 years. In lieu of a WVOE, year-end paystubs from the prior 2 years can be used for verifying bonus, commission, and/or overtime pay
- Careful consideration must be given to the pay structure of the income type when qualifying income. For example, bonus income may only be paid on an annual basis. In such cases, and the annual bonus has been paid out as evidenced by the current paystub, that YTD figure must be annualized for income calculation purposes
- A declining trend should be analyzed thoroughly, and an appropriate income calculation applied. For example, if a borrower earned less in commission income in the most recent year, an income average from the most recent year should be utilized as opposed to averaging with the previous year where more income was earned
- There should be no indication that the income will not continue for the foreseeable future

7.4.2 Seasonal Employment/Unemployment

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

7.4.3 Rental Income – All properties except departing residence

Landlord history is not required to use rental income under Full Express or Alt Express Programs only. A landlord history must be obtained under DSCR Express Program.

FNMA Form 1007 is required for all non-owner-occupied transactions.

- Existing rental income required documentation:
  - Most recent year's personal tax return including Schedule E **and** copy of current unexpired, executed lease (if lease is not current, evidence needs to be provided showing the lease converted to month to month) **and** at least 2 months proof of current rental income being received (i.e., canceled checks and/or deposits)

        - Rental income must be derived solely from the ownership of rental properties as declared on the Schedule E
    - Rental income from newly acquired property required documentation:
        - Copy of executed lease **and** verification of security deposit **and** first-month's rent deposited to borrower's account. Property may not be leased to a family member
        - Property must have been purchased after the most tax year (i.e. the property would not yet be reported on Schedule E)
    - Rental income from purchase of subject property documentation:
        - Copy of the current lease agreements(s) transferred to the borrower is required. Current lease amount will be used for the rental income calculation
        - If the property is not currently rented (ie vacant per appraiser), or if the existing lease is not being transferred to the borrower, then the lease agreements are not required and appraisal form 1007 or 1025 (as applicable) will be used for rental income calculation
    - Rental income from short leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals):
        - Only permitted on subject investment properties (refinance only)
        - Two-year history of receipt as reported on Schedule E of the borrower's personal tax returns
        - Evidence that the property is currently being offered for rent in the same manner is required
        - Market Rents cannot be used for short-term rental income
        - A two-year history is required and proof of current receipt of rental income being received is required
    - Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
        - Appraisal reflects zoning compliance is legal (permits are not required to establish zoning compliance)
        - Appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income
        - Multiple ADUs are not permitted
        - Refinance –
            - Market rent for the ADU must be documented on FNMA 1007, and
            - Copy of the current lease, and
            - 2 months proof of current rental receipt
        - Purchase (Owner Occupied and 2nd Home) –
            - Income from the ADU may not be used as qualifying income
        - Purchase (Non-Owner Occupied)
            - The lesser of the market rent on FNMA Form 1007 or actual rent is used for qualifying

Note: In all rental income instances, including ADU, qualifying rental income will be gross rents x 75%. This allows for 25% for vacancy factor and ongoing maintenance expenses.

7.4.4 Rental Income - Departing Residence

- Copy of executed lease **and** verification or receipt of the security deposit **and** proof that the first-month's rent has been deposited to borrower's account, **or** a recently completed appraisal form 1007 or 1025 (as applicable)
- The property may not be leased to a family member
- The lease agreement must be for a minimum 12-month term

Note: In all rental income instances, including ADU, qualifying rental income will be gross rents x 75%. This allows for 25% for vacancy factor and ongoing maintenance expenses.

7.4.5 Housing and Automobile

- Please refer to FNMA Guides

7.4.6 RSU Income - Restricted Stock

- Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock should not be confused with stock options. Restricted stock must be vested as well as received on a regular, recurring basis. The following documentation is required:
  - Issuance agreement or equivalent (part of the benefits package), and
  - Schedule of distribution of units (shares), and
  - Vesting schedule, and
  - Evidence that stock is publicly traded, and
  - Evidence of payout of the restricted stock (e.g., YTD pay stub and 2 years W2s)
- Calculation of income:
  - To determine the restricted stock price, use the lower of:
    - Current stock price, or
    - The two-year stock price average
  - Qualifying income will be calculated using an average of the restricted stock income for the past two years, and year to date stock earnings. The average stock price should be applied to the number of stock units vested each year
  - Future vesting must support qualifying income

7.4.7 Interest and Dividend Income

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

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

- Verification that these sources of income will continue for a minimum of 3 years is required

- A minimum 12-month history of receipt is required
- 2 years of tax returns are required (for capital gains income only)

7.4.9 Non-taxable Income

- Non-taxable income can be grossed-up by 125% or by borrower's income tax bracket, whichever is less
  - **NOTE:** At certain levels Non-Taxable Income could be subject to taxation and some income types may contain both taxable and non-taxable income. Federal Tax Returns may be required to accurately determine the non-taxable portion. Refer to FNMA Guides

8 ALT DOC EXPRESS

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options. Alternative documentation is not permitted for DSCR Express. Any decline or large fluctuation in income that is documented requires a detailed letter of explanation from the borrower regarding the decline/fluctuation.

Personal Bank Statements, Business Bank Statements, 12 Month P&L, 1099 Reduced Doc, Asset Depletion, and Asset Utilization are considered Alt Doc Express from a credit and pricing standpoint. When more than one documentation option is utilized for qualifying, i.e., bank statements together with asset depletion, then the documentation option yielding the highest borrower income will be used to determine pricing. Please see the applicable Express Product Matrix for restrictions.

Qualification is based on several factors including (but not limited to):

- FICO Score
- Debt to Income
- Loan to Value
- Housing Payment History
- Residual Income
- Ownership Seasoning
- Job Stability
- Reserves (PITIA)

8.1 Bank Statement Analysis

When analyzing Business Bank Statements, the borrower's percentage of ownership must be verified. Acceptable forms of documentation include a Business License, a signed written statement from a CPA or a Third-Party Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only), Operating Agreement reflecting borrower as "single member", Articles of Incorporation/Organization that reflects the borrow as President, Director, or Officer of the company and their name is the only name listed, a Partnership Agreement, or a Business Certificate filed with a governmental agency. Self-employed borrowers can use either personal or business bank statement documentation. The following apply to both types of documentation:

- Borrowers should be self-employed for at least two years with the same business. However, a borrower may qualify with less than two years but more than one year of self-employment with the same business if the borrower can document at least two years of documented previous successful employment in the same line of work in which the person is self-employed or one year of previous successful employment in the same line of work and one year of formal education or training in the same line of work

- Business should be established and have been in existence for the past two years. However, if a borrower is qualifying with less than two years but more than one year of self-employment, then the business should be established for the same length of time that the borrower has been self-employed
- A Third-Party Verification that the business is in existence, is in good standing and active is required
- All parties listed on a personal bank account used for income must be included as borrowers on the loan
- Bank statements used for income must be consecutive and reflect the most recent months available
- Bank statements must support stable and generally predictable deposits; large and unusual deposits as determined by the underwriter must be sourced. If they cannot be sourced, they must be excluded. Cash is not an acceptable deposit source.
- The underwriter must evaluate deposit and withdrawal patterns and determine whether the income used for qualifying is stable. Declining income may result in loan disqualification if the income is deemed unstable
    - Withdrawals consistently greater than deposits may be a sign of declining cashflow/income
    - LOE from the borrower or tax preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only) must be satisfactory. The CPA/Licensed Tax Preparer (excluding PTIN tax preparer NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only) must attest that they have audited the business financial statements or reviewed working papers provided by the borrower and attest that they are not affiliated or associated with the borrower's business if they have not done somewhere else in the loan file
- Non-Sufficient Funds (NSF) is defined as any day that reflects a negative balance at the end of the day. Non-Sufficient Funds typically result in a fee charged by the financial institution
    - A satisfactory LOE from the borrower must be provided
    - A maximum of three (3) NSFs within the most recent 12 months are permitted
- An overdraft (OD) is an event where an account has gone negative but is linked with another account or line of credit with the same financial institution
    - A satisfactory LOE from the borrower must be provided.
    - An OD is allowable and will be treated as an isolated incident provided the account does not end the day with a negative balance and shows a transfer from another account
- Deposits in the form of transfers from other accounts are generally excluded as qualifying deposits unless it is a wire transfer from another company for services rendered
- Other forms of income may be used in conjunction with the Bank Statement qualification such as W2 income or fixed income such as Social Security Benefits
- When a signed and dated Third Party P&L is provided, it must cover the same dates as the bank statements
- Business Narrative documentation prepared by the borrower is required. The Business Narrative must explain at minimum the nature of the business/operations and must include the number of full-time employees and or contractors

8.1.1 Personal Bank Statements

8.1.1.1 Documentation Requirements

- 12 or 24 months complete personal bank statements dated within 30 days of application (multiple bank accounts may be used): **and** two (2) months business bank statements (to support the borrower does maintain separate account(s))
    - If business bank statements cannot be provided to evidence a separate business account, then a 10% expense factor may be applied if there is no indication that the personal assets are a co-mingled account
- All deposits into the personal account that can be validated as being business-related deposits can be qualified. Total deposits are not reduced by an expense factor
- Transaction histories are not acceptable
- Large deposits and/or any unidentified deposits must be sourced. If it is determined that any deposit did not come from the borrower's business, the deposit must be excluded from the income calculation
- Transfers will be excluded unless they are from a documented business account
- The signed initial 1003/URLA must disclose the monthly income
- Business Narrative prepared by borrower explaining at minimum the nature of the business, operations and must include the number of Full-Time employees and or contractors
- Bank statements reflecting other individuals except non-borrowing spouses who are not applicants on the loan are not eligible
    - When spousal joint accounts are used, the borrower must be 100% owner of the business, all income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant
- Cash is not an acceptable deposit source

8.1.1.2 Income Qualification

The following apply when analyzing personal bank statements:

- 100% of the total business-related deposits
- Income disclosed on the initial signed application will be reviewed. If income calculated is significantly different than income stated on the 1003, an explanation from the borrower is required to determine acceptability of the income

Qualifying income will be total net deposits divided 12 or 24 (or net deposit reduced by applicable expense ratio when no supporting business accounts are provided).

8.1.2 Business Bank Statements

8.1.2.1 Documentation Requirements

- 12 or 24 months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that is acceptable)
    - Transaction histories are not acceptable
- Co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted
- Business Bank Statements must be consecutive and from the most recent period
- Reasonable and Customary Eligible Business Expenses from personal bank accounts:
    - Personal bank accounts that are addressed to a DBA
    - Personal bank accounts that evidence use for business expenses

  - Blended bank statements are allowed on a case-by-case basis with sole proprietor structure
- Third-Party verification of business existence
- A borrower prepared and signed Business Narrative that includes at minimum details related to the description, nature, size (full-time employees and or contractors) and scope of the business. The reasonableness of the expenses listed by the borrower will be evaluated
- Declining balances will require a detailed LOE provided by the borrower
- Wire transfers from other accounts must be either documented as business related or excluded from the income/deposit calculation
- The signed initial 1003/URLA must disclose the monthly income
- Cash is not an acceptable deposit source

8.1.2.2 Income Qualification (Three Options)

The following apply when analyzing business bank statements:

- The borrower must have at least 25% ownership of the business. If multiple owners, then the income used will be based on ownership percentage(s).
  - Acceptable forms of documentation that clearly state ownership percentage include:
    - Business license, or
    - Signed, written statement from a CPA or a Third-Party Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only), or
    - Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or
    - Business certificate filed with a governmental agency
- Income disclosed on the initial signed application will be reviewed. If income calculated is significantly different than income stated on the 1003, an explanation from the borrower is required to determine acceptability of the income

Option 1 (Expense Ratio)

Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by a fixed expense ratio factor of 50% divided by 12 or 24 months.

> Calculation Example: $500,000 in total deposits x 60% ownership percentage reduced by a 50% expense factor / 12 months of bank statements = $12,500 per month in qualifying income

Option 2 (3rd Party P&L)

The monthly income is calculated using a net income average from a 12 or 24-month P&L that is prepared and validated third-party preparer. The total deposits calculated over 12 or 24 months of business bank statements are required to support the gross revenues reported on the P&L within a reasonable amount as determined by the underwriter.

In addition to the business bank statements, the following documentation is required:

- P&L statement covering the same 12- or 24-month period as the bank statements. **Borrower prepared P&L will not be permitted under any circumstances**
  - P&L statement must be prepared and signed by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers are not permitted NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only)

- The CPA, EA, CTEC, Chartered Tax Advisor, or Licensed Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only) must sign the P&L and attest that:
    1. They have audited the business financial statements or reviewed working papers provided by the borrower
    2. They are not related to the borrower or associated with the borrower's business
- Tax Professional license must be verified and signed

Option 3 (3rd Party Expense Ratio)

Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by an expense factor as provided by a CPA, Enrolled Agent, CTEC or Chartered Tax Advisor (PTIN tax preparers are not permitted NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only) divided by 12 or 24 months

In addition to the business bank statements, the following documentation is required:

- Expense Statement specifying business expense as a percentage of the gross annual sales/revenue
    - Expense Statement must be prepared and signed by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers are not permitted NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only)
- The CPA, EA, CTEC, Chartered Tax Advisor, or Licensed Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only) must sign the Expense Statement and attest that:
    1. They have audited the business financial statements or reviewed working papers provided by the borrower
    2. They are not related to the borrower or associated with the borrower's business
- Tax Professional license must be verified and signed

Calculation Example: $300,000 in total deposits x 40% ownership percentage reduced by a 20% expense factor from a CPA / 12 months of bank statements = $8,000 per month in qualifying income

8.2 Rental Income

Rental income can be utilized on the following loan programs:

- 12-24 month Bank Statement Analysis
- P&L Only
- 1099 Reduced Doc Income
- Asset Depletion
- Asset Utilization (see section 8.7 for requirements)

Borrowers using rental income from investment properties not associated with the borrower's business may do so by providing a current active lease together with proof of rent payments received for the most recent 2 months.

If newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent.

If subject property is leased on a short-term basis utilizing an online service such as Airbnb or VRBO:

- Gross monthly rents must be determined by using a 12-month lookback period
    - Either 12-monthly statements, or an annual statement provided by the online service to document receipt of rental income is required
- A screenshot of the online listing must show the property is activity marketed as a short-term rental is required
- The use of Form 1007 based on short-term rental properties may be permitted when the property is in an established short-term/vacation market on a case-by-case basis

If using rental income from a departing residence, the property cannot be leased to a family member. The following documents are required:

- A fully executed copy of a 12-month term lease, and
- Verification of receipt of the security deposit, and
- Proof of the first month's rent deposited into borrower's account
- If the lease/deposit is not available, a recently completed appraisal Form 1007 or 1025 (as applicable) may be used to determine market rents

For a purchase transaction of an investment property, copies of the current lease agreement(s) transferred to the borrower are required. The current lease amount will be used for calculating rental income. If the property is not currently rented (ie vacant per the appraiser), an appraisal Form 1007 or 1025 (as applicable) will be used to determine gross market rent.

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

- Appraisal reflects zoning compliance is legal
- Permit is not required to establish zoning compliance
- Appraisal must include at least one sales comparable with an accessory unit and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income
- Multiple ADUs are not permitted
- Refinance –
    - Market rent for the ADU must be documented on FNMA 1007, and
    - Copy of the current lease, and
    - 2 months proof of current rental receipt
- Purchase (Owner Occupied and 2nd Home) –
    - Income from the ADU may not be used as qualifying income
- Purchase (Non-Owner Occupied)
    - The lesser of the market rent on Form 1007 or the lease agreement if the subject is an investment property

Qualifying rental income (including ADU) will be gross rents x 75%. This allows for 25% for vacancy factor and ongoing maintenance expenses.

8.3 Profit &Loss (P&L) Only

8.3.1 Documentation Requirements

- Profit and loss covering the most recent previous 12 or 24 months (depending on loan program)
    - The most recent month must be dated within 90 days of closing

- Completed and reviewed by a CPA, Enrolled Agent, CTEC, Chartered Tax Advisor, or Independent Licensed Accountant (a PTIN tax preparer is not acceptable NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only)
  - The appropriate 3rd party must sign and date the P&L documentation which indicates the accuracy of the P&L statement
    - A cover letter or similar document accompanying the P&L delivery that specifically states that the 3rd party prepared the P&L is acceptable in lieu of the 3rd party signing the P&L
- The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower and attest that they are not affiliated/associated with the borrower or the borrower's business
- Proof that the appropriate 3rd party is duly licensed, or certified
  - Certification or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3rd party (Certification proven by other reasonable methods may be allowed at underwriter discretion)
- Proof the business has been in operation for 12 months or greater (24 months required for the 24-month P&L program)
- Borrower narrative on nature of business required
- 3rd party documentation from which the borrower's ownership percentage can be determined
  - Documents which are not required to list all owners do not meet this requirement
  - The borrower must have at least 25% ownership of the business. If multiple owners, then the income used will be based on ownership percentage(s).
    - Acceptable forms of documentation that clearly state ownership percentage include:
      - Business license, or
      - Signed, written statement from a CPA or a Third-Party Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only), or
      - Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or
      - Business certificate filed with a governmental agency

The P&L must reasonably reflect the income and expenses of the industry described. P&L statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification.

NOTE: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

8.4 Written Verification of Employment (WVOE)

8.4.1 Eligibility

- Borrower must have a two-year history of employment with the same employer
- The only eligible source of income is limited to Salary/base pay from employment. Supplemental income sources such as commissions or rental income are not permitted
- Borrowers employed by family members or related individuals are not eligible

- The following apply when using WVOE only:
  - ✓ Minimum FICO 680
  - ✓ Primary Residence Only
  - ✓ Max LTV 80% for purchase/R&T
  - ✓ Max LTV for cash out is 70%
  - ✓ 0x30x24 housing history (rent free or any other instance of documenting less than 24 months of housing history is ineligible)
  - ✓ FTHB maximum LTV 70% and 45% DTI
  - ✓ No gift funds allowed

8.4.2 Documentation Requirements

- WVOE must be completed on Fannie Mae Form 1005 sent directly to and received directly from the employer. The employment information must be completed by Human Resources, Payroll Department, or an Officer of the company.
  - A WVOE from an online provider such as Equifax or The Work Number is also acceptable
- One (1) Month Personal Bank Statements are required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE
- Form 4506-C is required
- An internet search of the business is required with documentation to be included in the credit file to support the existence of the business
- VVOE within 10 days of closing is required
- Paystub, Tax Returns, or W2s are not required

8.5 1099 Reduced Doc Income

8.5.1 Eligibility

- Borrowers must have a two-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least one year of receiving 1099 in the same line of work

8.5.2 Documentation Requirements

- 1099 for the previous year tax year, payable to the borrower and not a business
- Verification of Employment from the current contract employer which must include:
  - The most recent two years plus Year-to-Date earnings
  - Likelihood of continued contractor status
  - Whether the contractor is required to pay for any business-related expenses (non-reimbursed)
    - If the verification does not reference related expenses, then a Fixed Expense Ratio of 10% may be used
- Most recent two months proof of receipt is required in the form of paystubs, checks or bank statements

If WVOE cannot be obtained for any employers in 2-year history, an LOE is required regarding the extenuating reason it cannot be obtained as well as both a year-end and year-to-date paystubs from all employers to support income calculation.

NOTE: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

8.6 Asset Depletion

Asset Depletion may be used to determine qualifying income both alone and in conjunction with other documentation options. Asset Depletion is considered to conform to the Alt Doc Express Program from a credit and pricing standpoint. Please see the applicable Express Product Matrix for restrictions.

8.6.1 Eligibility

- Primary residences and 2nd homes only
- Gift funds are not permitted
- Cash-out or debt consolidation transactions are not permitted

8.6.2 Qualifying Assets

Qualified Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts.

Proof of six-month seasoning of all assets is required.

The following assets are considered Qualified Assets and may be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 60% of the remaining value of publicly traded stocks & bonds
- 70% of 401k, Retirement assets (under eligible retirement age of at least 59 ½)
- 80% of 401k, Retirement assets (Eligible retirement age of 59 ½)
- Personal funds in the borrowers name only
    - Business funds and joint accounts with individuals not on the loan are not eligible
    - Accounts with margin loans are not eligible (regardless of if there is a loan balance or no balance)

8.6.3 Qualifying Income

If a portion of the Qualified Assets are being used for down payment, closing costs or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination.

Borrowers must have at least 1.5 times the loan balance in Qualified Assets, which must be net of down payment, closing costs, and required reserves to qualify.

The income calculation is as follows:
Monthly Income = Net Qualified Assets / 84 Months

8.7 Asset Utilization

Asset Utilization may be used for borrowers who have significant verifiable assets and would benefit from alternative loan qualifications. Asset Utilization is considered to conform to the Alt Doc Express Program from a credit and pricing standpoint.

8.7.1 Eligibility

- Asset Utilization may be used with any occupancy type
- Please see the applicable Express Product Matrix for restrictions
- Gift funds are not permitted

- Balances of qualifying assets must be verified within 10 days of Note Date
- **Residual Income:** In accordance with ATR standards, a monthly residual income calculation must be completed. The formula for this calculation is:
    - Post-Closing Qualified Assets (as detailed in 8.7.2 Qualifying Assets) / 60 months = Total Monthly Income
    - Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income
  - Monthly Residual Income must meet or exceed the following requirement:
    - Minimum of $1,500

  Note: Required reserves are **not** deducted from Post-Closing Qualified Assets when calculating residual income.
- Employment and Income are not required to be disclosed on the 1003/URLA. If not disclosed, enter "Not applicable to this loan" in the respective fields. A secondary contact phone number must be reflected in the business phone number section on the 1003/URLA (for consumer contact purposes only)
- Form 4506-C is NOT required for Asset Utilization
- **Borrower Affirmation:** The borrower must acknowledge their ability to repay the loan by signing a Borrower Affirmation Document at closing

8.7.2 Qualifying Assets

Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts.

Increases or decreases of greater than 15% over the six (6) month period (i.e., compare month 1 to month 6) must be explained by the borrower. Additional supporting documentation may be required.

Proof of six-month seasoning of all assets is required.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 60% of the remaining value of publicly traded stocks & bonds & mutual funds
- 70% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)
- 80% of 401k, Retirement assets (Eligible retirement age of 59 ½)
- 100% of cash value of life insurance policy
- Personal funds in the borrowers name only
  - Business funds and joint accounts with individuals not on the loan are not eligible

8.7.2.1 Ineligible Asset Types

- Gift Funds
- Business funds
- Non-liquid assets (automobiles, artwork, business net worth etc.)
- Annuities of any type
- Face value of a life insurance policy
- Foreign Assets
- Joint accounts with individuals who are not on the loan
- Accounts with margin loans (regardless of if there is a loan balance or no balance)

8.7.3 Qualifying Income

A traditional DTI is not calculated for Non-QM Asset Qualification. Rather, post-closing Qualified Assets must be greater than the sum of the items noted below:

- 100% of the loan amount, and
- 60 months of all real estate and consumer debt payments including revolving accounts, installment and lease accounts, alimony/child support, and mortgage related expenses on all properties owned (as defined in 8.7.4 Liabilities) including the subject property taxes, insurance, HOA due, etc (do not include the subject property P&I), and
- Subject property reserves requirements based on loan amount as detailed in the Reserves section of this guide

8.7.4 Liabilities

8.7.4.1 Mortgage Related Expenses

- Subject Property:
    - Exclude the subject P&I from the 5-year calculation (i.e. only include taxes, insurance, HOA dues, special assessments, etc).
- Non-Subject Properties:
    - Whenever additional REO is an investment property, the PITIA for that property may be excluded from the coverage requirement provided the property has positive cash flow
    - If the investment property has negative cash flow, any net negative rental amount must be included in the 60-month debt total.
    - Leases and 2 month's most recent rent receipts are required to document the rental income received for an investment property (Form 1007 is not required)
    - A 25% vacancy factor must be applied to the monthly rent prior to calculating positive/negative cash flow for the property
    - Net rent can never exceed $0
- Short-Term Rentals**:** Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g. short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement
    - Proof of receipt for the most recent 24 months is required
        - Use documented 24 months of payments to derive the monthly rental amount average. If no rent is received, use zero for that month

8.7.4.2 Installment Debt

Installment debt that is not secured by a financial asset (including student loans, automobile loans, and home equity loans) must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining.

- Paying down installment debt to ≤ 10 remaining payments to avoid including in the required assets calculation is not permitted
- Paying off installment debt completely is permitted

9 DEBT SERVICE COVERAGE RATIO (DSCR) EXPRESS

Borrowers financing non-owner-occupied investment properties can qualify based on their ability to service the debt over the life of the loan. For Debt Service Coverage, rental income is used to qualify the transaction. Debt Service Coverage is available to experienced Investors and First Time Investors based on the requirements in the Express Guidelines and Express Matrices.

9.1 Eligibility

- Any loan whereby the proceeds are used for personal, family, or household purposes is considered a consumer transaction and is ineligible for DSCR. This includes cash-out on investment properties where the loan proceeds are used for any personal use (ie paying off consumer debt
- Rent loss or loss of use coverage of six months PITIA is required
- Experienced Investors – proof of ownership and/or management of residential and/or commercial rental real estate for at least one year in the last 3 years is required. Borrower(s) working in the property management industry constitutes experience and is acceptable
    - First Time Investors – borrowers who do not meet the criteria of experienced investors are considered first time investors. First time investors are permitted with minimum 1% DSCR, 12 months reserves, minimum FICO per Express Product Matrix, verified 12-month housing payment history, and max 75% LTV
- Borrowers on Investor loan programs must execute the *Business Purpose and Occupancy Affidavit* that attests to the following:
    - No borrower(s) or borrower relatives (direct or by marriage) will occupy the subject property.
    - Ownership of the subject property is for business purposes only
- Interest Only loans require a minimum FICO score as per Express Product Matrix
- Housing history is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. See Section 6.2.2 of the guidelines for additional details
    - Borrowers who do not have a complete 12-month housing history are ineligible for the program
        - Borrowers who own their primary residence free and clear are acceptable. Properties that became free and clear within the past 12 months must have an acceptable mortgage payment history leading up to the payoff of the mortgage
        - Borrowers who live rent free at their primary residence are acceptable if they are an experienced investor that owns other REOs that meet the 12-month housing payment history
            - A "rent-free" letter of explanation is required
- Appraisal Form 1007/1025 must be obtained
- Subordinate financing is not permitted

9.2 DSCR Calculation

A Debt Service Coverage Ratio (DSCR) ratio is required. DSCR = Gross Rental Income / PITIA of the proposed new loan. If the subject transaction is an Interest Only loan, divide the Gross Rental Income by the ITIA (i.e. interest only payment, taxes, insurance, and HOA dues). Debt Service Coverage Ratio (DSCR) must be greater than or equal to a minimum of the published minimum as referenced on the DSCR Express matrix.

- Rounding DSCR: Rounding up of the DSCR value is permissible from the 3rd decimal

9.2.1 Purchase Transactions

The qualifying gross rental income figure is the higher of the market rent on Form 1007/1025 or the current lease provided the difference is not greater than 20%.

- When the market rent on Form 1007/1025 is greater than 20%, up to 120% of the Lease amount may be used to qualify (i.e., lease is $1100 and Form 1007/1025 is $1500 then $1320 may be used to qualify). If the subject property is vacant as indicated by the appraiser, the market rent from Form 1007/1025 with no vacancy factor is used for qualifying
- When the Lease is greater than 20%, the higher Lease amount may be used with 3 months current proof of receipt of the higher rental income (or as per the terms on the lease agreement for new leases)
- If subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO:
    - Gross monthly rents must be determined by using a 12-month lookback period
        - Either 12-monthly statements, or an annual statement provided by the online service is required to document receipt of rental income
    - A screenshot of the online listing must show the property is actively marketed as a short-term rental
    - A 5% LTV reduction required when using short term rental income to qualify
    - Exceptions may be considered to use market rent from Form 1007/1025 in which the appraiser utilized short-term rentals if the subject property is located in an established short-term/vacation market
- Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
    - Appraisal reflects zoning compliance is legal
    - Permit is not required to establish zoning compliance
    - Appraisal must include at least one sales comparable with an accessory unit and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income
    - Appraisal report demonstrates that the improvements are typical for the market through analysis of at least one comparable property with the same use
    - Multiple ADUs are not permitted
    - Purchase
        - The lesser of the market rent on FNMA Form 1007 or lease agreement is used for qualifying

9.2.2 Refinance Transactions

The qualifying gross rental income figure is the higher of the market rent on Form 1007/1025 or the current lease provided the difference is not greater than 20%.

- When the market rent on Form 1007/1025 is greater than 20%, up to 120% of the Lease amount may be used to qualify (i.e., lease is $1100 and Form 1007/1025 is $1500 then $1320 may be used to qualify). If the subject property is vacant as indicated by the appraiser, the market rent from Form 1007/1025 with no vacancy factor is used for qualifying
- When the Lease is greater than 20%, the higher Lease amount may be used with 3 months current proof of receipt of the higher rental income. (or as per the terms on the lease agreement for new leases)

- Leases are required to be no less than twelve (12) months but may convert to month-to-month upon expiration
- If subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO:
  - Gross monthly rents must be determined by using a 12-month lookback period
    - Either 12-monthly statements, or an annual statement provided by the online service is required to document receipt of rental income
  - A screenshot of the online listing must show the property is actively marketed as a short-term rental
  - A 5% LTV reduction required when using short term rental income to qualify
- Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:
  - Appraisal reflects zoning compliance is legal
  - Permit is not required to establish zoning compliance
  - Appraisal must include at least one sales comparable with an accessory unit and Form 1007 must include at least one rental comparable with an accessory unit in which the ADU receives rental income
  - Appraisal report demonstrates that the improvements are typical for the market through analysis of at least one comparable property with the same use
  - Multiple ADUs are not permitted
  - Refinance –
    - Market rent for the ADU must be documented on FNMA 1007, and
    - Copy of the current lease, and
    - 2 months proof of current rental receipt

10 ASSETS

Measuring liquid assets is a good way to determine if a borrower has sufficient funds to pay for a down payment, closing costs, and required reserves.

10.1 Documentation

The following types of documentation are permitted for verification.

- Verification of Deposit (VOD) Form. The information must be requested directly from the depository institution. The completed, signed, and dated document must be sent directly from the depository institution and dated within 30 days of the application date
- Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent 30 days. A summary statement will not be accepted
  - The statements may be computer generated forms, but must include or state the following:
    - The borrower as the account holder
    - Account number(s)
    - Timeframe the statement(s) cover
    - All deposits and withdrawal transactions
    - The previous close balance, the current balance, and the ending account balance

        - Retirement account statements must be from the most recent period and identify the borrower's vested amount and terms
- Assets must be seasoned for 30 days, and any large deposits as determined by the underwriter are required to be sourced.
- Large cash deposits are not an acceptable asset source
- Second Homes and Investment Properties - The borrower must demonstrate they have 10% of their own funds for the down payment. The borrower does not have to contribute 10%, only document that they have 10%

10.2 Eligible Assets

The following is a list of established assets that are permitted to determine a borrower's liquidity. Next to each asset is the value that is assigned based on its liquidity.

- Checking and Savings (100%)
- Certificates of Deposit (100%)
- U.S. Savings Bonds (100% if fully matured, otherwise 80%)
- Marketable Securities (100% net of margin debt). Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded
- Restricted Stock Units (RSU). Refer to FNMA Guides
- IRA, Keogh, and 401(K) Retirement Accounts including ROTH (80% of vested balance excluding outstanding loans secured against it for under eligible retirement age, 100% of vested balance less outstanding loans secured against it for eligible retirement age). Account statements should be updated with a transaction history dated within 30 days of Note date due to market volatility
- Pension Plans (60%). Only amounts accessible within a 30-day window are permitted. Account statements should be updated with a transaction history dated within 30 days of Note date due to market volatility
- Annuities (60%). Only amounts accessible within a 30-day timeframe are permitted
- Trust Accounts (100%). Must review a copy of the full Trust Agreement
- Business assets for self-employed borrowers used for down payment, reserves and closing costs are allowed
    - The borrowers on the loan must have 50% ownership of the business and must be the owners of the business account
    - Access letters from the remaining owners of the business must be obtained
    - A letter from a CPA, Third-Party Tax Preparer (excluding PTIN tax preparers NOTE: PTIN preparers that work for a 3rd party firm may be permitted by exception only), or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. The CPA/Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower and attest that they are not affiliated/associated with the borrower or their business
        - If a CPA letter is not provided, a Cash Flow Analysis of the business assets and liabilities (Balance Sheet) must be completed to determine if the withdrawal of funds from the business is acceptable. If no balance sheet is provided, an underwriter analysis of 12-month business bank statements is acceptable

- Spousal accounts - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in 10.1 Documentation.
  - Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements
- Crypto Currencies, Bitcoin, and Ethereum, are eligible sources of funds for down payment, closing costs, and reserves
  - For down payment and closing costs, the assets must be liquidated and deposited into an established U.S. bank account
  - For reserves, documentation to prove ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date at 60% of the current valuation. If the cryptocurrency is transferred into a U.S. financial institution prior to closing, 100% of the funds can be used for reserves
  - Crypto currency is not an eligible liquid asset for Asset Utilization/Asset Depletion
- Delayed 1031 Exchange funds for "like-kind exchange" are eligible for EMD, down payment, and closing costs. 1031 Exchange funds are not eligible for reserves.
- Unsecured loans, sweat equity, and gifts that require repayment are not eligible as sources of down payment

10.2.1 Gift Funds

- 100% of gift funds are allowed on owner-occupied transactions
- The borrower must demonstrate they have a minimum of 10% of their own funds for down payment on second home and investment property transactions. The borrower does not have to contribute 10%, only document that they have 10%
- Gifts must be from a family member
- Gifts can be used to pay off debt
- Gift funds cannot be counted towards reserves
- Purchase transactions only

10.2.2 Seller Concessions

Occupancy	LTV	Max Percentage
Primary and 2nd Homes	≤ 75%	9%
Primary and 2nd Homes	75.01 – 85.00%	6%
Investment	All	6%

Seller concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under $1,000 should be excluded)
- The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value

10.3 Reserves

Reserves are not stacked. For interest only (IO) loans, reserves are calculated using the IO payment amount.

Loan Amount	Months
< $1,000,000	3 months
$1,000,000 - $1,500,000	6 months
> $1,500,000	9 months
Rate/Term Refinances with ≤ 65% LTV	No minimum reserves required
First Time Investor (DSCR Express Only)	12 months

11 COLLATERAL

11.1 Property

11.1.1 Eligible Property Types

- Single Family Dwellings (maximum 1 ADU)
- 2-4 Family Dwellings – See Express Product Matrix for LTV restrictions
- Planned Unit Developments (PUD)
- Warrantable Condominiums – See Express Product Matrix for LTV restrictions
    - A certification, similar to the *Condominium Project Warranty Certification* must be provided along with the *FNMA Condominium Questionnaire (Form 1076)* or similar as well as any other documents used to determine eligibility
    - 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
    - Results from FNMA's CPM (Condo Project Management) website are required. If an approved Fannie Mae's CPM report is provided, a lender HOA questionnaire is not required
- Modular Homes

11.1.2 Ineligible Property Types

- Co-Ops
- Non-Warrantable Condominiums
    - 2-4 Unit Condos without an established and recorded common maintenance agreement are considered non-warrantable
- Condotels
- Live/Work Condos
- Leasehold Properties
- Barndominiums
- Mandatory Country Club Memberships
- Manufactured Housing or Manufactured Homes
- Working Farms
- Time-shares
- Boarding houses
- Properties greater than 20 acres

- Commercial properties
- Vacant lots
- Log Homes
- Mixed Use
- Assisted Living
- Properties Under Construction
- C5 or C6 property condition grades
- Unique Properties
- Work escrows are not allowed
- Agricultural properties
- Geodesic domes
- Tenancy in Common properties
- Properties with less than 500 square feet living space
- Mortgage Loans financing builder inventory
- Homes on Native American Land (Reservations)
- Properties used for the cultivation, distribution, manufacture, or sale of Marijuana
- Properties with values more than the predominant value of the subject's market area may be ineligible

NOTE: A property's zoning by itself does not make the property ineligible. In addition to other items such as having similar comparable sales that support the subject's value and marketability, the highest and best use of the property must be residential use whereby the residential use represents a legal and permissible use of the land per the zoning requirements. Furthermore, the zoning must allow the property to be rebuilt based on its current residential use to current density if destroyed.

11.2 Appraisal

A full appraisal involves a complete inspection of the home, including the interior and exterior of the subject property. Acceptable appraisal report forms must follow FNMA and FHLMC standards which include Uniform Appraisal Data Set (UAD) Specifications and the Field Specific Standardization Requirements. Additional requirements:

- Properties must be appraised within the 12 months that precede the date of the Note
    - When the appraisal report is more than 120 days old, the appraiser must perform a recertification per FNMA 1004D or FHLMC Form 442 which includes inspection of the exterior of the property and review of current market data to determine whether the property has declined in values since the date of the original appraisal
- Uniform Residential Appraisal Report (URAR) with color photographs
- FNMA Form 1004 / FHLMC Form 70 for use on one-unit properties including individual units in Planned Unit Development (PUD) projects and Site Condos. FNMA Form 1073 is required for condominiums. FNMA Form 1025 is required for 2-4 unit properties
- When using rental income on the subject property, Appraisal Form 1007 is required unless a 1025 appraisal was obtained
- Refer to Express Product Matrix for additional appraisal requirements

11.2.1 Valuation Overview

FNMA Guidelines are the minimum appraisal standards for all written appraisal reports. Reports must include/have, at a minimum, the following:

- Uniform Appraisal Standards
- Appraiser Independence
- Appraiser Competency
- Fair Lending Requirements
- Vendor Selection Process
- Acceptable Appraiser Practice Standards
- Compliance with the Uniform Standards Professional Appraisal Practice (USPAP), as established by the Appraisal Standards Board of the Appraisal Foundation
- Properties exceeding the predominant value of the subject market are acceptable provided they are supported by similar comparables and also represent the highest and best use of the land as improved
- Refer to FNMA Guides at https://selling-guide.fanniemae.com/

11.2.1.1 Appraiser Independence

Appraisals must contain honest, unbiased professional opinions of value.

- Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties
- Appraiser may not be asked to report a predetermined value or withhold disclosure of adverse features
- All appraisals must be ordered through an Appraisal Management Company (AMC)
- Any appraisal from an appraiser who works for the lender, borrower or any party affiliated with the transaction will not be accepted

All appraisals must follow the Appraiser Independence Requirements pursuant to the Dodd-Frank Wall Street Reform and the Consumer Protection Bureau Act of 2010. Compliance with the Appraiser-Independence Requirements will be reviewed by in independent third-party.

A LICENSED OR CERTIFIED APPRAISER MUST SIGN ANY REPORT PREPARED FOR THE LENDER IN ORDER FOR THE LOAN TO BE ELIGIBLE.

11.2.1.2 Appraisal Reviews

- One full appraisal is required for loan amounts ≤ $2,000,000
- Any loan amount over $2,000,000.00 will require 2 full appraisals
    - The lesser of the two appraised values is to be used for calculating the value
    - When 2 full appraisals are provided an additional valuation report is not required
- When only 1 appraisal is required and the CU Score is greater than 2.5, a secondary report is required to be completed by:
    - Collateral Desktop Analysis (CDA) from Clear Capital Appraisal Management; or Appraisal Risk Review (ARR) from Pro Teck. If neither company is available, please reach out to UW Management for additional options.
        - If a valuation from either of these companies is less than 90% of the appraised value, then the LTV will be calculated using the lower of the desk review value.
        - If a desk review cannot be obtained, then a second appraisal is required
- On all Purchase Money Transactions, closing instructions should indicate that no credits for property condition are allowed and there should be no seller concessions due to damage to the property that was caused by the declared federal disaster

11.2.2 Declining Markets

Properties with appraisals that show the "Neighborhood – Housing Trends" marked as Declining may be subject to a reduction in LTV/CLTV.

- The distinction of a Declining market is determined by the Appraiser. Appraisers are required to pull median house price data over the last 12 months and analyze it to determine the market trends for that area and property type

DECLINING MARKETS			
Required to be applied for LTVs > 65%			
Property Value	**Demand**	**Market Time**	**Reduction to LTV**
Declining	Shortage or In Balance	Under 3 months	5%
Declining	Shortage	3 – 6 months	5%
Declining	In Balance	3 – 6 months or Over 6 months	5%
Declining	Over Supply	Over 6 months	5%

11.2.3 Flipped Properties

When the subject property is being resold within 365 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the 365-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) are required to be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- Assignments of the contract to another buyer are not allowed
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/
- A second appraisal is required in the following circumstances:
    - Greater than 10% increase in sales price if seller acquired the property in the past 90 days
    - Greater than 20% increase in sales price if seller acquired the property in the past 91-180 days

11.2.4 Transferred Appraisals

Appraisal transfers are not permitted.

11.3 FEMA Disaster Areas

All mortgage transactions, whether it is a purchase or a refinance, will require a Disaster Inspection Report confirming no damage to the subject property and no adverse impact to marketability.

- The practice of obtaining a Disaster Inspection Report should continue for a minimum of 90 days from the date of the disaster and display a completion date that doesn't exceed 15 days prior to the loan closing

11.4 Title Insurance Requirements

The purpose of title insurance is to provide evidence of ownership and the lawful possession of a property. It protects the owners (in the case of an owner's policy) and lenders (in the case of a mortgage loan policy) against loss if the chain of property is imperfect or against unknown encumbrance against the property.

Coverage provided by American Land Title Association (ALTA), or an equivalent association is required. Either a Standard or Short Form Policy is acceptable. Short Form Policies are provided due to a shorter turnaround time, allowing a faster delivery to the secondary market.

Eligible title insurance must reflect the following:

- The effective date of the commitment should be dated within 120 days of the signing of the Note and the Mortgage
    - If the date exceeds 120 days, the title company must update the commitment with either gap coverage or an updated commitment. Please note that Texas loans must be within 90 days
- Title insurance is required, the amount of the policy must be the same as the amount of the loan
- All title vesting must be reviewed to insure it is as it appears on the application. All title holders are required to authorize the mortgage transaction which is accomplished by requiring all non-applicant title holders to sign certain closing documents
- When title insurance is required on a property that is held in trust, the Trust Agreement must be reviewed and approved by the title company and the Lender's underwriters. Loans that are held in an Irrevocable Trust are not permitted
- The definition of the estate should be Fee Simple
- For a purchase loan, the vesting will state the seller's name(s) and should match the purchase contract. A deed transferring title will be required at closing
- The Legal Description for the property should appear as it does on the appraisal and the application. The tile report must contain the entire legal description and may be identified by lot and block or metes and bounds description
- The original title commitment should be countersigned by an authorized person from the title company
- The title report should show the appropriate lien position. It will also show if there are any exceptions listed on the commitment
- Outstanding mortgages on the subject property are also listed on the preliminary title report. Any additional mortgages must be addressed, paid off, and released at or prior to closing the loan. If any liens are to remain open, they must meet subordination guides set forth
- Any liens (i.e., Federal Tax Liens, Mechanic's Liens) or judgments must be paid off at or prior to closing

  - Judgments that belong to another person or of a similar name may appear on the preliminary title report. In these instances, the applicant must sign an affidavit at closing, to satisfy the title company, which states they are not the person(s) named in the judgment(s)
    - These judgments should not be on the final title policy.
  - Solar panel liens must be subordinated or paid off
    - HERO liens must be paid
- Real estate taxes and assessments are liens against the property that take precedence over all other liens. If the property owner fails to pay their taxes or assessments, then the county or city can sell the taxes to obtain the monies owed to them. Even if a lender has interest in the property the taxes can be sold
  - If taxes on the subject property are due and payable within 30 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy
  - If a title company requires an escrow account when the due date is beyond 30 days (i.e., 45 days) then all parties must adhere to the title company's requirements
- All borrowers must sign the title company's prepared escrow agreements at closing
- Easements are rights that a person has on the property/land of another person. Examples of easements are public utility easements, mineral rights, beach rights, and riparian rights. These will not affect our lien position and can remain as exceptions on the title policy
- Encroachment is construction on the property of another, i.e., wall, fence, or a driveway
  - Encroachments listed on the preliminary title report can remain as an exception on the final title policy if the title company will insure against loss or damage caused by the enforced removal of the real property that is encroaching onto the property
  - If the title company will not provide insurance, then the encroachment must be reviewed by underwriting to determine if this will materially affect the value of the property/improvements or our security interest
- All survey exceptions must be cleared on all loan products. The title company is to advise on what is necessary to remove the survey exception
- HOA dues must be current or paid current at time of closing. A letter from the association is required stating that the applicant's dues are up to date, that there are no liens currently and that no liens have been placed on the subject property due to non- payment of dues
- Lis Pendens is a legal notice that is recorded to show any pending litigation relating to the property. Anyone that is acquiring an interest in the property after the date of the notice may be bound by the outcome
  - All Lis Pendens are to be removed or the application will be denied
- Subject properties in a coastal area that cannot be rebuilt to its current density and use if destroyed are ineligible
- Affirmative language is required if Oil and Gas Leases and Mineral Rights remain as exceptions on the final title policy. It must be confirmed that these leases do not provide for any surface rights or else the loan is ineligible
- Agreements such as private well and septic, private roads, and shared driveways also require affirmative language and can remain as an exception on the title unless they relate to a public utility. Private well agreements need to be reviewed to determine whether the well is on the subject property or the rights to the well will be transferred with the title to the property. If this is not the case, the subject property may be considered ineligible

- Unacceptable Title Defects can be, but are not limited to, the following:
    - Open liens, judgements, taxes, or tax liens
    - Non-clearance of probated property
    - Foreclosure
    - Properties with unexpired redemption periods

11.4.1 Title Policy Requirements

Only accredited title companies with an acceptable rating can provide title insurance and ownership reports.

11.4.1.1 Endorsements

All applicable endorsements must be present in a Title Insurance Policy. Endorsements are available for title insurance policies only and they provide affirmative language and or protection to the lender for the specific exceptions being left on the title that typically occur due to property type.

The following is a list of required endorsements:

- Comprehensive Endorsement Survey (ALTA Form 100 or ALTA 9)
- EPA Endorsement (ALTA 8.1)
- Condominium Endorsement (ALTA 4)
- PUD Endorsement (ALTA 5)
- Adjustable/Variable Rate Endorsement (ALTA 6)

11.4.1.2 Spousal Property Rights

Marital property law affects the ownership, control, and disposition of property during a marriage, upon divorce and upon the death of a spouse. Common law, community property and homestead rights all have an impact on how certain real property may be conveyed, encumbered, or transferred to a creditor to satisfy debt in case of a foreclosure. The initial and final CD must be signed and dated by non-spouse (refi's only).

Certain states require marital signatures on all transactions. Spouses that are not applicants should not be required to sign the promissory note. There will be times that we may require a spouse to sign necessary documents per state requirements for homestead rights.

11.4.1.3 Survey Requirements

Each loan will have

- A survey of the property securing the loan; or
- A survey affidavit, acceptable in all respects to the title insurance company insuring the loan, such that the title insurance policy insuring the first mortgage encumbering the loan is without exception regarding any matter related to a survey including:
    - the location of improvements on the subject property
    - the location of easements on the subject property
    - the location of encroachments affecting the subject property, or the subject property's metes and bounds

- If a survey is included, the survey must have been certified, dated, and signed by a licensed civil engineer or registered surveyor performing the survey
- Unimproved land surveys are not acceptable

- Surveys must be reviewed for easements, encroachments, flood zone impacts and possible boundary violations

11.5 Hazard Insurance Requirements

Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement.

- Hazard insurance protection is required on all loans. A declaration page with an effective date on or prior to funding is required for all loans as proof of insurance
- On all refinance transactions, if the coverage termination date is within 30 days of the closing, evidence of continuing coverage is required
- A loss payable endorsement is required for all loan transactions
- 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
    - Damages caused by aircraft vehicle or explosions
- Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable
    - Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless that have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril
- The HOI Policy must be effective for at least 60 days after the date of funding. Evidence of Insurance can be provided in one of the following forms:
    - Policy
    - Certificate of Insurance
    - Insurance Binder
- Property Insurance Minimum Rating requirements must be met

11.5.1 Disaster Policies

Loans that are secured by properties that are located within a declared disaster area or in an undeclared disaster area, either man-made or natural, are subject to the following conditions:

- The Lender reserves the right to require a written certification from the appraiser or a Disaster Inspection Report, which indicates that the value of the property has not been affected by any damage arising out of the disaster and that the subject property is in marketable condition and that there are no major repairs needed or detrimental conditions to the subject property
- Borrowers are required to complete a Borrower Certification at the time of closing on the physical condition of the property. See Doc Magic Doc Prep for a copy of this document

11.5.2 Deductibles

- Family Residences:
    - The maximum allowable deductible, to include any separate wind-loss or other separate deductibles that apply to a specific property element, is 5% of the face amount of the policy

- Condos, and PUDs:
  - The maximum deductible amount for policies covering the common elements must be no greater the 5% of the face amount of the policy
  - For losses related to an individual unit in a PUD that is covered by a blanket policy; the maximum deductible is no greater than 5% of the replacement cost
    - If there is a wind-loss deductible, then the deductible must be no greater than 5% of the face amount of the policy
  - For Condos with blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit

11.5.3 Evidence of Insurance

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

11.5.4 Amount of Coverage Required

Hazard Insurance coverage must comply with state, federal laws and should be equal to the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer or reputable 3rd party source (ie CoreLogic); or
- Estimated cost to replace as notated on the appraisal delivered with the loan file (Total Estimate of Cost-New) or RCE from insurance provider/agent;
- The unpaid principal balance of the mortgage

If none of the above are met, then coverage that does provide the minimum required amount must be obtained.

11.5.4.1 Determining the amount of required Hazard Coverage:

Provided below is a formula for determining the required amount of hazard insurance coverage that is generally required for first mortgage liens.

Step 1: Compare the insurable value of the improvements (established by the property insurer) to the unpaid principal balance of the mortgage.

a) If the insurable value of the improvements is less than the unpaid principal balance, then the insurable value will be the amount of coverage required.
b) If the unpaid principal balance of the mortgage is less than the insurable value of the improvements, then continue to step 2.

Step 2: Calculate 80% of the insurable value of the improvements.

a) If the result of this calculation is less than or equal to the unpaid principal balance of the mortgage, then the unpaid principal balance will be the amount of coverage required.
b) If the result of this calculation is greater than the unpaid principal balance of the mortgage, then this calculated figure will be the amount of coverage required.

Examples:

	Property A	Property B	Property C
Insurable Value	$90,000	$100,000	$100,000
Unpaid Balance	$95,000	$90,000	$75,000
80% Insurable Value	-	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1(a)	Step 2(a)	Step 2(b)

12 UNDERWRITER ANALYSIS

12.1 Documentation Age

Credit documents must be no more than 120 days old from the date the Note is signed and 120 days for appraisal(s). The Note date is utilized for document expiration for all funding types including escrow and non-escrow funding.

12.2 Monthly Debt

See Express Product Matrix for specific program requirements.

- DTI = total monthly debt ÷ total monthly gross income
- Monthly debt service used to calculate DTI must include the following:
    - Monthly mortgage principal and interest, hazard and flood insurance, real estate taxes, special assessments, association dues and any subordinate financing payments for all real estate owned by the borrower
    - Rent obligation on a primary residence when the subject transaction is for a second home or investment property
    - Recurring installment debts
    - Lease payments
    - Revolving and open-ended account payments, regardless of the balance
    - Child support or separate maintenance payments and alimony
    - Other continuing obligations

The maximum allowable DTI varies depending on the loan program but can never exceed 50%. Please refer to the Express Product Matrix for maximum allowable DTI.

12.3 Property Taxes

The real estate taxes used to determine the monthly housing expense must be documented. The amount must be based on the value of the land and the total of all assessed improvements. The most recent real estate tax bill, tax assessment, or tax certificate from title are examples of acceptable documentation.

For new construction or full renovation property, one of the following documents must be provided to support the proposed property taxes bases on improvements:

- Documentation from title/settlement attorney detailing tax amount being used is based on current tax mileage and new build/improvements, or
- Printout of online county tax estimator using purchase price or appraisal cost new estimate (if shown on appraisal), or
- Calculation worksheet using mileage rate plus purchase price or appraisal cost new estimate (if shown on appraisal)

A previous year's tax bill that does not show current improvements assessed (ie land only) is not acceptable.

12.4 Residual Income

- A minimum of $1,500/month in Residual Income is required on all Full Doc and Alt Doc loan products. The formula for this calculation is:
  - Post-Closing Qualified Assets ÷ 60 months = Total Monthly Income
  - Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income

12.5 Exceptions

Exceptions are permitted at the Lender's Discretion. The Underwriter should review the loan file to ensure prudent underwriting was used as well as listing compensating factors for the loan exception(s).

There is no obligation to originate loans that meet these guidelines or have an exception on the loan file. Compliance with these guides does not create a commitment to lend. Any loans that will be originated are at the sole discretion of the Lender.

13 ADDITIONAL REQUIREMENTS

13.1 Agency Ineligibility

It must be documented that the borrower does not qualify for a GSE loan or has chosen a non-GSE loan program. A copy of the final loan approval is required to be retained in the loan file.

13.2 Interest Only Qualifying

Interest-only loans are qualified using the greater of the Note rate or the fully indexed rate using the fully amortized payment over the fully amortized term of the loan.

13.3 Fraud Reviews

Data integrity is crucial to having a quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. LoanSafe, Fraud Guard, DataVerify, etc.). A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted.

Documentation must be provided to confirm all parties to the transaction such as borrowers, entities holding title, sellers, realtors, realtor brokerages, closing attorney/title agent, title company, lender/originator, loan officer, appraiser and appraisal company were run against OFAC and watch lists with no alerts.

13.4 Borrower ATR Certification

Loans subject to Reg Z Ability to Repay must include a Borrower(s) Certification attesting to the following:

- Borrower(s) have disclosed their financial obligations
- Borrower(s) have reviewed and understand the loan terms; and
- Borrower(s) have the ability to repay the loan.

NOTE: An underwriters detailed attestation regarding the borrower's ability to repay is acceptable in lieu of signed borrower disclosure except when Asset Depletion or Asset Utilization is the qualifying method.

13.5 Closing Documentation

All closing documentation (i.e., Notes, Deeds of Trust, etc.) must conform to and be FNMA approved. The use of any non-FNMA documentation must receive prior approval.

13.6 Prepayment Penalties

Permitted on investment property loans only.

- 1-to-5 year prepayment as permitted by applicable laws and regulations on closed-end 1-to-4 unit business purpose investment properties
- Prepayment penalty must be contracted for in an appropriate Note and Security Instrument Rider
- 6 months interest on amount of prepayment above 20% of the original loan amount in any 12-month period

13.6.2 State Specifics

13.6.2.1 Ineligible Prepayment Penalties

Prepayment penalties are not permitted in the following states. All other loans with a prepayment penalty must comply with applicable state law.

- Alaska
- Illinois
- Kansas
- Maryland – when a Note is contracted under the Usury Laws (either explicitly or if Choice of Law is not stated)
- Minnesota
- New Jersey
- New Mexico
- North Dakota
- Ohio loan amounts < $110,233 (for 2024)
- Pennsylvania loan amounts ≤ $312,159 (for 2024)
- Oregon – requires state specific disclosure besides the Note and SI Rider

13.6.2.2 Restricted Prepayment Penalties

- Ohio (loan amount >=$110,233) – 5-year Prepayment Penalty. 1% or less of the original principal amount

- Maryland – Note must specifically include Choice of Law – Title 12, Subtitle 10 Credit Grantor provisions
- Michigan – 3-year Prepayment Penalty 1/1/1 % of amount of the prepayment
- Mississippi – 5-year maximum declining prepayment penalty structure is allowed
- Rhode Island – 1 year Prepayment Penalty. 2% of the balance due

13.7 Escrows

- Escrows for taxes and insurance will be required for all HPMLs (High Price Mortgage Loans) that are primary residences
- Escrows for taxes and insurance will be required on Debt Consolidation Refinances
- Escrows are required for LTV's greater than 80%
- Flood Insurance must be escrowed regardless of LTV

13.8 Maximum Financed Properties

- Exposure may not exceed $7.5MM or 10 loans aggregate to any one borrower
- DSCR <1.00 is limited to a maximum of $2MM to any one borrower
- A borrower may own up to 20 financed properties when the subject property is a primary or secondary home. This total includes the subject property
- There is no limitation to the total number of financed properties a borrower may own when the subject property is an investment property