



# FUNDLOANS



# ASPIRE X

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## 2<sup>nd</sup> MORTGAGE GUIDELINES

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# PROGRAM OVERVIEW

ASPIRE X is a high CLTV, exterior-only appraisal cash-out, debt consolidation or piggy-back purchase junior lien (second position or better only) program available for 1 unit primary residences, second homes, and investment properties.

## Section 1.0 Introduction

### 1.1 Overview and Underwriting Philosophy

The FundLoans Apex X Mortgage Guidelines (hereafter referred to as “Guidelines”) outline the requirements for residential mortgage loans to be originated to FundLoans Capital (hereafter referred to as “FundLoans”). This document serves to provide guidance and consistency in the underwriting and review of the loan and its characteristics related to the borrower and property. FundLoans offers programs to originators for borrowers who may have limited access to credit. As such, FundLoans evaluates many elements of the loan but primarily relies on the evaluation of the borrower’s ability to repay the loan. In addition to ability-to-repay (ATR), FundLoans’ programs take into consideration—with the expectation of full verification and examination—the borrower’s income stability and employment history, credit history, asset position, and the property being used for collateral. Each loan is assessed on the basis of its individual merits with a common sense and holistic approach to the borrower’s ability and willingness to repay. To this end, FundLoans’ programs consider the benefit to the borrower on each loan.

### 1.2 Underwriting Criteria

The Guidelines are intended to reference and supplement the Fannie Mae Seller Guide. For specific information concerning qualification requirements that are not referenced in this document, Originators should refer to the Fannie Mae Seller Guide. For specific loan characteristic and eligibility requirements related to LTV, FICO, DTI, etc., refer to the FundLoans Matrix (hereafter referred to as “Matrix”). Loans originated to FundLoans must meet the criteria of the current published Guidelines and Matrix as of the file submission date.

#### 1.2.1 Ability-To-Repay (ATR)

FundLoans recommends the Exhibit A: Ability-To-Repay Borrower Attestation or similar document be included with all loan files originated.

#### 1.2.2 Alternative Loan Review / AUS

All loans will be manually underwritten. The Underwriting Approval, Income Calculation Worksheet, and the Underwriter’s determination of ATR is required. All loans must have evidence of agency ineligibility. In the loan file, this is documented via either (1) a completed Alternative Loan Review Form, or similar form, (2) a DU or LP underwriting findings report verifying the loan does not qualify for agency delivery (AUS Findings with a “Refer” or “Approve/Ineligible” response).



## Section 2.0 Aspire X Program and Requirements

### 2.1 Program Overview

The FundLoans closed-end second can be stand-alone and in combination with new first liens. When used in combination with a new first mortgage, the income documentation used for qualifying must be the same for both liens.

See Matrix for details and program specific.

The program is designed for primary, second home and investment borrowers. For both QM and Non-QM transactions, with flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles while utilizing standard and alternative document types.

- **Full Doc 1 or 2 Yrs:** Standard FNMA Documentation
- **Alt Doc Bank Statements:** 12, 24 Bank Statements

Loan amounts are rounded down to the nearest \$100.

Example \$205,631, round down to \$205,600

### 2.2 Eligible Products

The following loan products are eligible. See Matrix for details.

- Fully Amortizing Fixed Rate: 10, 15, 20, 30 year fixed rate.

Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.

- Balloon Notes: 30/15, 40/15

(See matrix for limitations).

### 2.3 Ineligible Senior Liens

A copy of the 1st mortgage statement is required to determine eligibility. Statement date to be within 60 days of Note date. Copy of 1st mortgage note is required if statement does not provide sufficient details to determine terms.

- Loans in active forbearance or deferment.
- Loans with negative amortization.
- Reverse mortgages.
- Interest only mortgages
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.

### 2.4 Seasoning: Loan and Document

Underwriting and borrower credit documents may not be more than 120 days seasoned at the Note Date. When using a previous appraisal, it may be seasoned up to 12 months from the Note Date.



## 2.5 Seasoning: Property Listing

Properties that have been on the market within twelve months of the application date are ineligible.

## 2.6 Seasoning: Ownership

Properties owned less than six (6) months ineligible.

## 2.7 State and Federal High Cost Loans

Not eligible.

## 2.8 Interest Credit

Loans closed within the first ten (10) days of the month may reflect an interest credit to the borrower.

## 2.9 Assumability

Fixed Rate Notes are not assumable.

## 2.10 Property Hazard Insurance

### 2.10.1 Coverage Requirements

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

Follow FNMA guidance for additional information.

## 2.11 Flood Insurance

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

Flood insurance must be maintained throughout the duration of the loan.

### 2.11.1 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). Flood Cert from CoreLogic or ServiceLink is preferred. The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or



- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

### 2.11.2 Minimum Flood Insurance Coverage

For reference, the minimum amount of flood insurance required for most first mortgages secured by 1-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling; or,
- the unpaid principal balance of the mortgage.

The minimum amount of flood insurance required for a PUD or condo project is the lower of:

- 100% of the insurable value of the facilities; or,
- the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA.

## Section 3.0 Property Eligibility

### 3.1 Appraisals

There are two collateral evaluation methods available for the second mortgage program.

#### 3.1.1 Appraisal Options

- An original appraisal dated within 12 months of the Note Date plus a Residential Appraisal Review with a value equal to or greater than the appraisal. CLTV is calculated using original appraisal.  
A new 2055 appraisal is required if the review value is below the original appraisal value.
- A new 2055 appraisal plus a Residential Appraisal Review supporting value within 10%.

### 3.2 Minimum Property Standards

Minimum property standards include but may not be limited to:

- 600 square feet.
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed \$2,000
- No health or safety issues both internal or external

#### 3.2.1 Eligible Property Types

- SFR, PUD, Townhome, Rowhome
- Condos – Warrantable

#### 3.2.2 Ineligible Property Types

- Rural





- Condotels
- Non-warrantable Condos
- Manufactured
- Multi-unit
- Log Homes
- Working Farms and Hobby Farms
- Unique Properties
- Agricultural or Commercial Zoned Properties
- Co-ops
- Room and Board Facilities
- Adult Assisted Living/Care Facilities

### 3.2.3 Acreage Limitations

- Maximum 10 acres

## 3.3 State Ineligibility

All states eligible with exception of:

- Texas
- New York

## 3.4 Title Vesting and Ownership

Ownership must be fee simple.

Acceptable forms of vesting are:

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

### 3.4.1 Inter Vivos Revocable Trust

Inter Vivos Revocable Trusts are allowed when the requirements outlined below are met.

- The trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) who is establishing the trust.
- Trust must be in the borrower's name.
- Trust must state that the borrower(s) have a right to revoke the Trust during their lifetimes.
- Income and assets of at least one borrower of the individuals establishing the Trust must be used to qualify for the mortgage.
- Trust must comply with all applicable state and local laws and regulations.
- Trustee must have the power to mortgage the property.
- The trust must become effective during the lifetime of the person establishing the trust.

Provide copy of Trust Agreement or Trust Certificate (where allowed by law) reviewed and approved by Title company. Title must not contain any title exceptions and offer full title protection without exception to the trust.



## 3.5 Leasehold Properties

In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy.

Leaseholds must meet all FNMA eligibility requirements (i.e. term of lease).

## 3.6 Limitations on Financed Properties

### Primary and Second Homes

- The maximum number of financed properties to any one borrower is limited to twenty (20) residential properties including subject property.
- Commercial properties and residential > 5-units excluded from calculation.

### Investor Properties

- There is no limit on the number of financed properties.

## 3.7 Disaster Areas

Must identify geographic areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected.

Subject properties that have been adversely affected by disaster events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. The following guidelines apply to properties located in FEMA declared disaster areas, as identified on the FEMA website at <http://www.fema.gov/disasters>.

In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, hurricanes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest or terrorist attacks, additional due diligence will be used to determine if the disaster guidelines should be followed.

Guidelines for disaster areas should be followed for 90 days from the disaster period end date or the date of the event, whichever is later.

See FUNDLOANS full Guidelines for additional specifics on Disaster Areas or FNMA Guidelines.

## 3.8 Declining Values

Properties in which the appraiser is reporting a declining trend in values for the subject's market area are ineligible.

## 3.9 Condominiums

Fannie Mae eligible condominium projects allowed.



FundLoans may review and approve FNMA warrantable projects following the review process required by Fannie Mae for Limited Review.

The following table from FNMA Seller’s Guide section B4-2.2-01 describes attached units in an established condo project that are eligible for a Limited Review.

<b>Limited Review Eligible Transactions</b>	
<b>Attached Units in Established Condo Projects (For Projects Outside Florida)</b>	
<b>Occupancy Type</b>	<b>Maximum LTV/CLTV and HCLTV Ratios</b>
Principal Residence	85%
Second Home	75%
Investment Property	75%

Site Condos meeting the Fannie definition are eligible for single-family dwelling LTV/CLTV.

## Section 4.0 Transaction Types

### 4.1 Eligible Transactions

- Purchase
- Rate & Term
- Cash-out

#### 4.1.1 Cash-out Seasoning

Properties owned over 6 months, no restrictions. Properties owned less than 6 months ineligible.

### 4.2 Non-Arm’s Length

Non-arm’s length transactions ineligible.

## Section 5.0 Borrower Eligibility and Requirements

Refer to Fannie Mae guidelines for all definitions of eligibility status.

### 5.1 Fraud Report and Background Check

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation, social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the seller. If the FundLoans cannot electronically access the fraud report to clear high-level alerts within the fraud provider’s system, an Underwriter’s Certification from is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the FundLoans’s underwriting staff or operations management personnel.



## 5.2 Non-Occupant Co-Borrowers

Non-Occupant co-borrowers are ineligible.

## 5.3 First Time Homebuyers

FundLoans defines a First Time Home Buyer as a borrower who has no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the subject property.

A First Time Home Buyer is required to have a documented 0x30x12 month housing history. Private party housing histories are ineligible.

## 5.4 Residency

### 5.4.1 U.S. Citizen

Eligible without guideline restrictions.

See FUNDLOANS full Guidelines for specifics on:

- Permanent Resident Alien
- Non-Permanent Resident Aliens

### 5.4.2 Ineligible Borrowers

The following borrowers are ineligible:

- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.
- Foreign Nationals.
- Borrowers without a valid Social Security Number.

## Section 6.0 Credit

### 6.1 Credit Report

A credit report is required for every borrower. All applicants must have a valid SSI number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility.

Borrower explanations are to be provided for any Disputed Tradelines with derogatory information reported in the last two years.

For borrowers who have a security freeze on their credit, the security freeze must be removed and credit repulped.



## 6.2 Loan Integrity and Fraud Check

Data integrity is critical to quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. FraudGuard, 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.

## 6.3 Credit Inquiries

Originators must inform borrowers that they are obligated to notify FundLoans of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

For all inquiries within the most recent 90 days of the credit report date, a signed letter of explanation from the borrower or creditor is required to determine whether additional credit was granted as a result of the borrower's request. If new credit was extended, borrower must provide documentation on the current balance and payment; based on the verification of all new debt/liabilities, the borrower should be qualified with the additional monthly payment. If no credit was extended, borrower must state the purpose of the inquiry.

## 6.4 Gap Credit Report

FundLoans will confirm there are no new borrower debt obligations. A gap credit report or soft-pull is required if Note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report or soft-pull is to be dated within 15 days of the Note date.

When a gap report or soft-pull is required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated.

## 6.5 Housing History

Borrowers must have satisfactory consecutive 12-month mortgage and/or rent payment history in the three (3) years prior to loan application. Mortgage and rental payments not reflected on the credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM), or with alternative documentation. Alternative documentation must show the most recent 12-month history, and may be in the form of cancelled checks or bank statements, mortgage/rental statements including payment history, etc. Payments to private lenders require support with cancelled checks.

Alternative documentation is ineligible for FTHB.

## 6.6 Consumer Credit

### 6.6.1 Consumer Credit History

Applicants with current credit delinquencies are ineligible.

### 6.6.2 Consumer Credit Charge-offs and Collections

No charge-offs or collection accounts in the last 48 months.



### 6.6.3 Consumer Credit Counseling Services

Borrowers enrolled in credit counseling are ineligible.

### 6.6.4 Judgment or Liens

No open judgements or liens.

### 6.6.5 Income Tax Liens

All income tax liens (federal, state, local) must be paid off prior to or at loan closing.

## 6.7 Credit Event Seasoning

No foreclosures, short-sale, deed in lieu, bankruptcies in last 48 months.

No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

## 6.8 Credit Score

The primary wage-earner score is used as the Representative Credit Score on Full Documentation loans. The primary wage-earner must have one (1) valid score from at least two of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

To determine the Representative Credit Score for a borrower, select the middle score when 3 agency scores are provided, and the lower score when only 2 agency scores are provided. For multiple borrowers, use the Representative Credit Score of the primary wage-earner for Full Documentation loans. Additional borrowers must meet the minimum Credit Score as per the matrix.

For all other Doc types, use the lowest of all borrowers' Representative Credit Scores.

## 6.9 Standard Tradeline Requirements

The primary wage-earner must meet either of the minimum tradeline requirements listed below:

- At least three (3) tradelines reporting for a minimum of twelve (12) months with activity in the last 12 months; or,
- At least two (2) tradelines reporting for a minimum of twenty-four (24) months with activity in the last 12 months

Valid tradelines have the below characteristics:

- The credit line must be reflected on the borrower's credit report
- The account must have activity in the last 12 months but may be open or closed
- Student loans may be counted as tradelines as long as they are in repayment and are not deferred
- An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline (VOR from professional management company).

The following are not acceptable to be counted as valid tradelines:

- Liabilities in deferment status



- Accounts discharged through bankruptcy
- Authorized user accounts
- Charge-offs
- Collection accounts
- Foreclosures
- Deed-in-lieu foreclosures
- Short sales
- Pre-foreclosure sales

## 6.10 Obligations / Liabilities not appearing on Credit Report

### 6.10.1 Housing and Mortgage Related Obligations

All properties owned by the borrower must be fully documented. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract.

The monthly mortgage payment (PITIA) used for qualification consists of the following:

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments.
- Premiums and similar charges that are required by the creditor (i.e., mortgage insurance)

### 6.10.2 Current Debt Obligations, Child Support, Alimony or Maintenance Obligations

A credit report maybe used to verify a borrower's current debt obligations, unless the FundLoans has reason to know that the information on the report is inaccurate or disputed.

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's DTI ratio. The file should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the borrower is ineligible.

## Section 7.0 Assets

### 7.1 Document Options

For purchase files, documentation of sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff are required. FNMA guidelines used to verify funds.



## Section 8.0 Income Documentation

### 8.1 Income Analysis

The income documentation and calculation per FNMA guides with 2 years verification unless otherwise noted by the program document requirements.

#### 8.1.1 Income Worksheet

The loan file should include FundLoans' income calculation worksheet detailing income calculations.

Income analysis for borrowers with multiple businesses must show income/(loss) details separately, not in aggregate.

#### 8.1.2 Employment and Income Verification

Most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by specific program requirements.

A two-year employment history is required for the income to be considered stable and used for qualifying.

When the borrower has less than a two-year history of receiving income, documentation must be provided with written analysis to justify the stability of the income used to qualify the Borrower.

### 8.2 Debt to Income Ratio / DTI

Standard Debt-to-Income ("DTI") maximums as per Matrix.

DTI is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses.

### 8.3 Documentation Options

Full income documentation for wage earners and self-employed borrowers.

Bank statement documentation for self-employed borrowers.

### 8.4 Full Income Documentation

#### 8.4.1 Full Doc

Self-employed borrowers:

- 2 years tax returns (business and personal) including all schedules.
- YTD P&L (prepared by tax professional)

W-2 borrowers:

- W-2 for most recent year and 30 day most recent paystubs or WVOE

Other Requirements:





- A verbal VOE from each employer 10-days of the note date for wage and salaried employees.
- For self-employed verify existence of business within 30-days of the note date with one of the following:
  - Letter from business tax professional.
  - On-line verification from regulatory agency or licensing bureau.
  - Certification verifying business existence through direct contact or internet search.

#### Other Miscellaneous Income

- Treatment of miscellaneous income sources follow FNMA guidelines.

## 8.5 Alternative Income Documentation: 12 or 24 months Bank Statements

### 8.5.1 Alt-Doc: 12 or 24 months Bank Statements

For self-employed borrowers. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income.

At least one of the borrowers must be self-employed for at least 2 years (25% or greater ownership) to qualify for this program.

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

The lower of the stated income on the initial 1003 or UW income analysis is used to qualify.

### 8.5.2 Alt-Doc: Bank Statement Restrictions

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

### 8.5.3 Alt-Doc: Bank Statement Documentation

- Borrower must document two years current continuous self-employment with business license or statement from corporate accountant/CPA confirming the same.
  - Other documentation from third parties may be acceptable on a case by case basis (e.g., letter from an attorney).
  - Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
  - In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.

#### 1099 Contractor

- A borrower who is a "1099 contractor" may be considered self-employed for this program with confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). Borrower cannot have ownership of 1099 Payor's business.



See FUNDLOANS full Guidelines for other income specifics.

### **8.5.4 Alt-Doc: Bank Statement Income Analysis**

Bank statements are used to calculate and show consistency of income for the self-employed borrower.

When using 12 or 24 months of bank statements, no P&L is required.

#### **Personal & Business Bank Statements Combined**

- If personal and business bank activity are combined in one bank account, borrower is to provide the most recent 24 or 12 months consecutive bank statements from the same account.
- The bank statements are analyzed per Business Bank Statement Analysis guidance in FUNDLOANS full Guidelines to determine qualifying income.
- Standard expense factor applies; 50% expense factor.
- If the type of business operates more efficiently or typically has a materially different expense factor (higher or lower than standard expense factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The minimum expense factor with CPA letter or P&L is 20%.
  - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income (subject to the minimum expense factors). Provide either of the following:
    - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation (Exhibit B: Sample of CPA Letter); or,
    - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
    - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

#### **Personal & Business Bank Statements Separated**

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.



- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and three (3) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
  - No expense factor
  - Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

### **Business Bank Statements Only**

- If only using business bank statements, borrower is to provide the most recent 24 or 12 months consecutive business bank statements.
- The bank statements are analyzed per Section 8.7.5 to determine monthly income.
- Standard expense factor applies; 50% expense factor.
- If the type of business operates more efficiently or typically has a materially different expense factor (higher or lower than 50%), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The minimum expense factor with CPA letter or P&L is 20%.
  - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
    - A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation(Exhibit B: Sample of CPA Letter); or,
    - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
    - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.

The bank statements should show a trend of ending balances that are stable over the 24 or 12 month period.

- Large deposits inconsistent with history must be documented as business income.



- Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

See FUNDLOANS full Guidelines for Bank Statement Income Analysis Guidance.

## Section 9.0 Senior Liens

### 9.1 Senior Lien Limits

Limitations on existing or new senior liens.

#### 9.1.1 Maximum Combined Liens

The maximum combined 1st and 2nd lien is \$1,500,000.

#### 9.1.2 Ineligible Senior Liens

- Loans in active forbearance or deferment.
- Negative amortization.
- Reverse mortgages.
- Interest only mortgages
- Balloon loans that the balloon comes due during the amortization period of the 2nd lien.

### 9.2 Senior Lien Documentation Requirements

Stand-Alone 2nd:

- Current (within 60 days) first mortgage statement showing,
  - Current principal balance.
  - Fully amortized.
  - Term.Copy of note required if terms cannot be determined with statement.
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.

Piggy-Back 2nd:

- Follow 1st lien income requirements.
- 1st mortgage approval reflecting 2nd .
- DU/LP Approve/Eligible, or LP Accept or Approve/Accept/Ineligible due to loan size or non-conforming 1st liens (if applicable).
- Purchase agreement (if applicable).
- Closing instructions reflecting 2nd.



# Exhibit A

## ABILITY TO REPAY CERTIFICATION

Please read each statement carefully. Initial to the left of each certification, then sign and date the form.

\_\_\_\_\_ **Application-Completeness and Accuracy:** (I/We) certify that (my/our) Loan Application (“Application”) and supporting documents contain all information regarding (my/our) financial situation likely to affect (my/our) ability to repay this loan. Furthermore, (I/we) have not omitted or withheld any such information, nor have (I/we) falsified any information appearing on our supporting (my/our) Application.

\_\_\_\_\_ **No Undisclosed Changes to Financial Situation:** (I/we) certify that, since submitting (my/our) Application, there have been no changes to (my/our) financial situation that are likely to affect (my/our) ability to repay this loan, nor do (I/we) currently expect any such changes (including, but not limited to, applications for new loans or other extensions of credit, legal proceedings such as bankruptcy or tax proceedings, job changes, or retirement).

\_\_\_\_\_ **Ability to Repay:** (I/We) certify that (I/we) can and will be able to afford the payments on this loan and will have enough “residual income” (after accounting for contributions from liquid assets, if necessary) after making each payment for this loan to afford basic needs, comforts, and obligations (including, but not limited to, food, clothing, utilities, health insurance, transportation, and taxes).

\_\_\_\_\_ **Understanding of Loan Documentation:** (I/We) certify that (I/we) have read the loan documents, disclosures, and notices for this loan, and that (I/we) understand them. Upon review of the loan documents, disclosures, and notices for this loan, (I/we) believe (I/we) have the ability to repay this loan according to its terms.

\_\_\_\_\_ **Consequences of False Statements—Terms of Loan and Federal Law:** (I/We) understand that if (I/we) made any materially false, misleading or inaccurate information or statements to LENDER (or failed to provide LENDER with material information) (I/we) may be in default on the loan. (I/We) fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage loan, as applicable under Title 18, United States Code, Section 1014.

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-Borrower

\_\_\_\_\_  
Date



## Exhibit B

# SAMPLE CPA LETTER

January 28, 2019

ABC CPA FIRM  
ADDRESS | CITY, ST ZIP CODE

XYZ LENDER  
ADDRESS | CITY, ST ZIP CODE

To whom it may concern:

I have worked with borrower, John Homeowner, for 5 years. Mr. Homeowner has been the founder/CEO of company, 123 Business, since 2008/ I have either completed or reviewed Mr. Homeowner's taxes and determined that 123 Business operates at a 35% expense factor.

Sincerely,

Jane Smith, CPA