FUNDLOANS

APEX ELITE (Alt Doc)
MONTAGE ELITE (Full Doc)
SPECTRUM ELITE (DSCR)
GUIDELINES

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TABLE OF CONTENTS

1.0 Introduction

FundLoans Capital's (hereafter referred to as FundLoans) Credit Guidelines establish standards and criteria in which a loan will be eligible for funding. Brokers/Originators should use these Guidelines to understand how FundLoans assesses risk and to understand FundLoans program specifics and our process flow. **If a topic is not addressed within these guidelines, FundLoans will align with Fannie Mae (FNMA) Manual Underwriting guidelines.**

The Credit Guidelines provide detailed requirements for eligibility but FundLoans is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guides does not create a commitment by FundLoans to fund, as FundLoans has sole discretion to fund any loan.

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

Broker Responsibilities

FundLoans 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.

FundLoans has a no-tolerance policy as it relates to fraud. Brokers/Originators should have and continue to follow their own established fraud and identity procedures for every loan to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of tax transcripts, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be funded by FundLoans and will trigger clawback provisions as applicable in the Broker Agreement. Any determination of Broker/Originator involvement and/or knowledge of misrepresentation will result in the dissolution of any relationship. The appropriate agencies may be notified.

Additional Requirements

- Deviations from the underwriting guidelines based on compensating factors may require an exception and must be documented in the loan file.
- Negative Amortization Features or Equity Participations loans are not permitted.
- FundLoans does not fund loans defined as high-cost mortgages (or equivalent terms) under Federal or State law.
- U.S. Territory loans are not allowed. Properties must be in the United States.
- With respect to each Mortgage Loan, (1) each Mortgagor or Guarantor is a natural person and (2) at the time of origination, the Mortgagor was legally entitled to reside in the United States.
- Occupancy - the Broker/Originator gave due consideration, at the time of origination, to information contained within the Mortgage Loan File, to evaluate whether the occupancy status of the related Mortgaged Property as represented by the Mortgagor was reasonable. For business purpose loans, the Borrower must complete the Business Purpose & Occupancy Affidavit.

- No Mortgage Loan underwritten pursuant to a bank statement income documentation program was underwritten using fewer than twelve consecutive months of bank statements.
- 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.
- 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.

Ability to Repay (ATR)

The Ability-to-Repay (ATR) Rule is the reasonable and good faith determination that a borrower has the ability to 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.

Lenders are required to make a reasonable, good-faith determination before a loan is closed so that the borrower has a reasonable ability to repay a loan. The lender must consider the following eight (8) underwriting factors and include proper underwriting documentation that these factors were properly considered:

- 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 (5) 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, and
- Credit history

NOTE: Sample Ability to Repay Attestation Disclosure is located in section 9. Underwriter may attest to the borrower meeting the ATR rules or borrower may sign an attestation.

2.0 Alternative Documentation and DSCR Programs

Alternative Documentation Program Options

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options. When more than one documentation option is utilized for qualifying, i.e., bank statements together with 1099, the documentation option yielding the highest borrower income will be used to determine pricing. When Alt Doc programs are used in conjunction with full doc income qualification, Alt Doc pricing and qualification will be used. Please see the applicable Elite Alt Doc Matrix for restrictions.

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

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

The following programs are considered Alt Doc from a credit and pricing standpoint:

- 1099 Reduced Doc Income
- Asset Depletion
- Asset Utilization
- Bank Statement- Personal
- Bank Statement- Business
- P&L
- Written Verification of Employment (WVOE)

Other Program Options

Debt Service Coverage Ratio (DSCR)

DSCR program is also referred to as Spectrum Elite from a credit and pricing standpoint. Please see the applicable FundLoans Matrix for restrictions.

3.0 Eligibility

3.1 Eligible Borrowers

All borrowers on loans funded by FundLoans will be individual, natural persons.

- **U.S. Citizens** (as defined by USCIS)
- **Permanent Resident Aliens:** An individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. Documentation requirements:
  - Valid and unexpired Permanent Resident Card/" Green Card" (Form I-551) without conditions. For conditional permanent residents, proof of filed Form I-751 required. If any green card expires within the 6 months before closing, proof of a filed Form I-90 is required.
- **Non-Permanent Resident Aliens**: An individual who is not a U.S. Citizen but lives in the U.S. under the terms of an acceptable visa and/or EAD Card. 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. Individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens must be employed in the U.S. for the last 24 months.
- **Foreign Nationals** are permitted under our DSCR program. Please see the Foreign National section for additional information.

Documentation Requirements

- **Visa:**
  - 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 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.
- **EAD Card:**
  - If 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 they will continue to sponsor their employment.
  - The EAD Card must be unexpired at closing (date the Note is signed).

Non-permanent resident borrowers must document legal residency status by meeting the documentation requirements below. Borrowers who cannot meet the requirements below are not eligible.

VISA ELIGIBILITY MATRIX				
Visa Category	**Visa Type**	**Brief Description**	**Documentation Required**	**EAD Code**
Trade Treaty Work Visa	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02
	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
Temporary Employment Visa	H-1B	Specialty Occution	Visa	
	H-1B1	Specialty Occupation		
	H-1B2	Specialty Occupation - U.S. Department of Defense		
	H-1B3	Fashion model of distinguished merit and ability		
	H-1C	Registered nurse - U.S. Department of Labor		
	H-4	Spouse or child of H-1B	Visa and EAD	C26
Media Work Visa	I	Foreign media outlet (press, radio, film, or other)	Visa	
Non immigrant Visa for Fiancé(e)	K-1	Fiancé(e) - purpose of marriage	Visa and EAD	A06
Nonimmigrant Visa for Spouse	K-3	Spouse of a U.S. citizen	Visa and EAD	A09
Temporary Employment Visa	L-1A	Intracompany transfer - managerial or executive	Visa	
	L-1B	Intracompany transfer - specialized knowledge		
	L-2	Spouse or child of L-1A or L-1B	Visa and EAD	A18
Temporary Employment Visa	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	Visa	
	O-2	Assistant to O-1		
	P-1A	Internationally recognized athlete		
NAFTA Professional Workers Visa	TN	Professional under NAFTA	Visa	

Spouse / Child of Permanent Resident Alien	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I-130) which was filed prior to December 21, 2000, and has been pending for at least three years.	Visa and EAD	A15
	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed prior to December 21, 2000, and has been pending for at least three years.		
	V-3	The derivative child of a V-1 or V-2.		

EAD ELIGIBILITY MATRIX	
The EAD categories shown below are eligible categories. Other EAD categories are not eligible. Borrower's holding the EADs noted below are eligible without a Visa.	
EAD Code	**EAD Code Definition**
C09	Adjustment of status applicant
C10	• Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants Applicant for suspension of deportation • Applicant for cancellation of removal
C24	LIFE legalization applicant
C31	• Principal beneficiary of an approved VAWA self-petition • Qualified child of a beneficiary of an approved VAWA self-petition
C33	Deferred Action for Childhood Arrivals

3.2 Ineligible Borrowers

- Foreign Nationals
- All Persons with Diplomatic Immunity, as defined by the U.S. Citizenship and Immigration Services
- Persons sanctioned by OFAC or from OFAC sanctioned countries: https://ofac.treasury.gov/sanctions-programs-and-country-information
- Seller Employee Loans
- Trusts of any kind cannot be the borrower but may hold title

- 501(c)(3) Organizations
- LLCs, Corporations or Partnerships
- LLCs whose members include other LLCs, Corporations, Partnerships, or Trusts
- LLCs where a Power of Attorney is used
- Businesses or persons whose income derives from the cannabis industry. Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership. Income from borrowers who are paid W-2 is allowed.

Note: Business entities of any kind cannot be the borrower but may hold title

3.3 Borrower Types

Borrower Types	Description
Primary	The occupying borrower who earns the greater of the qualifying income.
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; 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.

3.4 Eligible Occupancy

Borrower Types	Description
Primary Residence	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. (See FNMA Guides for Primary Residence)
Second Home	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	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 Investors are allowed with verified 12-month housing payment history. ● A signed Business Purpose & Occupancy Affidavit is required on all investment property transactions that are closing as Business Purpose. The broker/originator must provide a personal use occupancy certification if loan is not closing as a business purpose transaction. ● All investment properties that are vested in the name of an entity (e.g. LLC, Partnership, S-Corp) require a signed Business Purpose and Occupancy Affidavit

3.5 Eligible Transactions

3.5.1 Purchase Money

Purchase money mortgages are mortgage transactions in which the loan proceeds are used to purchase the subject property. This is evidenced by a 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 (FTHB)-** FTHB are allowed- must be primary residence or second home or meet the First Time Investor guidelines for the program.

- **Non-Arm's Length Transaction (NAL)-** 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. 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. NAL transactions on second homes and Investment properties are ineligible.
  - 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. See Gift Fund section for additional guidance on gift funds.
  - 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
    - Seller Employees
    - Owner Financed
- Delayed 1031 Exchanges are allowed only for down payment and cash to close
- HELOCs and 2nd liens not permitted

3.5.2 Rate/Term Refinance

A Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepays, or buying out a co-owner/partner pursuant to an agreement. 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). 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 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 $2,000 or 1% of the loan amount.
- Use current appraised value for LTV calculation purposes.
- Sale Restriction - Property must be removed from listing for at least one month prior to application and LTV will be based on the lesser of the list price or appraised value when listed within the last three months of the application date.
- The new Rate/Term Refinance Loan amount is defined and limited by the following:

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

3.5.3 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. Additional requirements are:

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. If the subject property is owned for less than six months (Note to Note), a 5% reduction to 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, and the purchase price must be documented 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 current appraised value.
- Sale Restriction - Property must be removed from listing for at least one month prior to application. 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.

- Cash back as it relates to the maximum limits is defined as "cash in hand" to the borrower. Net proceeds from a cash-out transaction may be used to meet reserve requirements. Maximum cash out is unlimited for LTV ≤ 65%. For LTV > 65%, maximum cash out is $1,000,000.
- 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 (See FNMA Guides for additional information):
  - The original purchase must have been 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)
  - 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 DSCR/DTI ratio 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.

3.5.4 CEMA Loans

Consolidation, Extension, and Modification Agreement (CEMA) loans are available for New York refinance loans only. FundLoans does not accept Lost Note Affidavits for any loan types.

3.5.5 Texas Home Equity Loans 50(a)(6)

Allowable based on FNMA Guides B5-4.1 must adhere to Article XVI, Section 50(a)(6) statue.

NOTE: Primary Residences only. Interest Only is prohibited on a Texas Section 50(a)(6) Equity Cash Out loan. Loans must be fully amortized.

3.6 Ineligible Transactions

- Assumable loans
- Construction to permanent transactions
- Loans with Temporary Buydowns
- Builder Bailout Loans
- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- Assignments of the contract to another buyer
- Graduated Payment Mortgage Loans
- Ground leases
- Buydown Mortgage Loans
- Pledged Asset Loans
- Convertible Mortgage Loans (i.e. allows an ARM to convert to a Fixed Rate Mortgage)
- Periodic Payment Loans - must have periodic payments due and loans cannot have more than three 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

4.0 Credit

4.1 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 FundLoans eligibility requirements described in this section.

4.2 General Requirements

Underwriting must document that the borrower does not qualify for a GSE loan or has chosen a non-GSE loan program. Additionally, underwriting is required to include a copy of the final loan approval or equivalent i.e. customer commitment letter, 1008 and/or Lender approval.

- The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

- Aging - The credit report should be dated within 120 days prior to the Note date.
- Debt Monitoring - An Undisclosed Debt Notification (UDN) is required within 10 days prior to closing date. Verification of monitoring documents needs to clearly show date issued, created or printed within 10 days of the closing date showing active monitoring. We will also accept a credit refresh/gap report within a 10-day window. Debt monitoring is not required on DSCR loans.
- Evaluation - In general, FundLoans will evaluate an applicant's Credit Report 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 in the last 90 days is required for all loans except DSCR transactions.

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 still acceptable as long as:

- Credit data is available from two repositories,
- A credit score is obtained from at least one of those two repositories, and
- The lender requested a three in-file merged report.

4.2.1 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 and used to determine the qualifying credit score for loan approval. Methodology of which FICO score to use is as follows:

# of Borrowers	# of Scores per Borrower	Methodology
1 Borrower	2 or 3	• Lower of 2 or the Middle of 3 FICO Scores
2 or more- Borrowers Non DSCR	2 or 3	• Primary Wage Earner's Lower of 2 or Middle of 3 FICO Scores • If 2 of the 3 credit scores are identical, the identical score is your mid score

DSCR Loans	2 or 3	• The Representative Credit Score for a borrower is the middle score of 3 FICO scores, or the lower score of 2 FICO scores when only 2 FICO scores are provided. • When more than one borrower qualifies for the loan, the qualifying credit score is the lower Representative Credit Score of all borrowers

4.2.2 Tradeline Requirements

All borrowers should have an established credit history that is partially based on tradeline history. For all loans other than DSCR only the Primary Wage Earner is required to have met the minimum tradeline requirements . For DSCR loans, all borrowers must meet the minimum tradeline requirements. Authorized User accounts cannot be used to meet minimum tradeline requirements.

Required Tradelines	Active Reporting Period	Min FICO/ Non DSCR	Min FICO/ DSCR	Min Ratios/ Non DSCR	Min Ratios/ DSCR
3 Tradelines	≥ 12 months	680	700	50%	N/A
OR					
2 Tradelines	≥ 24 months	680	700	50%	N/A

<u>Borrowers without the above minimum trade lines may qualify if there is a minimum of at least four years of established credit history as follows:</u>

- Eight or more tradelines reported
- At least one active in the last 12 months. This is 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 (can be counted as the active tradeline)

4.2.3 Credit Reporting Data Included in DTI Ratios

For all programs that require a DTI for qualification purposes, the following credit data must be included in the ratios:

- **<u>Installment Debt</u>**: All installment loans (monthly obligations with fixed payments and terms) must be included in the borrower's debt-to-income ratio.
  - <u>Excluded from DTI</u>: payments of 10 months or less. If the payment exceeds 5% of the borrower's qualifying income, then the underwriter must keep the remaining payments in the DTI.

  - Excluded from 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:** Open-ended debt obligations 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 required minimum reserve requirement) to cover the full reporting account balance.

  - **Excluded from DTI:** Revolving accounts that are paid off prior to or at closing are excluded from the DTI. Supporting documentation such as a credit supplement or verification from the creditor is required. Funds used for the payoff must be sourced if 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: -** An individual has a contingent liability when an outstanding debt obligation 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 unless the following conditions are met:

  - **Excluded from DTI:** If one borrower was obligated to buy-out the other borrower because of a divorce or separation, then the loan file should include the divorce decree, separation agreement or court order that shows transfer of ownership. In addition, the obligation in question must be current.

  - **Excluded from DTI:** 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**: Are included in DTI (excluding 401(k) repayments)

4.2.4 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 and the business debt is less than 6 months old, then the debt must be included in the DTI. If the business debt is greater than or equal to 6-months old, the debt may be omitted from the DTI if the borrower provides documentation that the borrower's business is making the payments on the debt. Acceptable documentation includes the most recent 6 months of cancelled checks or bank statements showing the debt as paid from the business account.

4.2.5 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 (24 months required for WVOE loans) whereby that payment history meets the requirements of the Program Credit Matrix. A Verification of Mortgage (VOM) must be obtained for all outstanding mortgages that are not reported to the borrower's credit report, including private mortgages. Verification needs to reflect pay history up to the date of application and must be current at closing. Please see the DSCR guidelines for requirements on the DSCR program. If the credit report does not reflect pay history, following are acceptable methods of verification:

For mortgage payments (any of the following)

- VOM ordered from Mortgage Servicer,
- Electronic pay history printout directly from Mortgage Servicer showing timely payments,
- Credit Supplement showing paid as agreed
- Bank Statements showing account ownership and timely payments debited by Mortgage Servicer,
- Cancelled checks front and back as well as 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.

For rental payments

- If was/is renting from a private party, obtain either a fully executed VOR OR the most recent lease for the property address in question. In either case, verification of timely payments made is required (either canceled checks front and back OR bank statements showing account ownership and payments debited by landlord).
- If was/is renting from a management company, obtain a fully executed VOR. Otherwise, obtain the most recent lease, along with payment history ledger from management company, canceled checks front and back OR bank statements showing account ownership and payments debited by management company.

NOTE: Any properties owned free and clear by a borrower is 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). Documentation verifying free and clear is required such as property detail report, data verify report, title search, etc.

4.2.6 No Housing History or Less Than 12 Months Verified

This section applies to 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.

NOTE: If loan application/1003 shows a property rented or owned in the prior 12 months, a fully executed VOR/VOM must be obtained for these months reflecting paid as agreed. *Excluding address history that is documented as rent-free.

- 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 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) from the non-borrowing spouse must be obtained.
- Borrowers living rent-free with any person other than a non-borrowing spouse are not eligible and may only be considered on an exception basis.

Once the above documentation requirements have been met the loan must adhere to the following restrictions:

- Primary residence only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- Max 45% DTI

4.2.7 Other Credit and Credit Reporting Requirements

- **Authorized User Accounts**: Credit report tradelines in which the applicants are "authorized users" 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 they have made at least 50% of the payments on the account for at least 12 months preceding the date of the application.
- **Student Loans:** Payments and deferment will be reviewed in accordance with FNMA guides.

4.2.8 Credit Counseling, Collections, Judgements, Liens

- **Judgements, Garnishments and Liens:** The borrower is required to pay-off all open judgements, garnishments, and liens (including mechanics liens or material men's liens) prior to or at loan closing.
- **Consumer Credit Counseling Services (CCCS):** Borrower enrollment in CCCS 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 eligible 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

4.2.9 Forbearance, Deferred Payments, Modifications

- COVID Forbearance must be released and fully current
- Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing
- Mortgage Loan Modifications are acceptable with 36 months seasoning, min 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 unsecure

4.2.10 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. When a significant adverse credit event has occurred within the prior 7 years, maximum LTV is 80% for Full and Alt Doc, 75% for DSCR.

5.0 Capacity

5.1 Full Documentation

5.1.1 Full Doc Program Overview

For all loan programs and/or income options, any decline or large fluctuation in income that is documented in the file requires an explanation from the borrower regarding the decline/fluctuation.

FundLoans will accept Full Documentation (Full Doc) for the following Wage Earner types. All Wage Earner loans require an executed 4506-C or 8821 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**

5.1.2 Documentation Requirements

The following table summarizes the required documentation for our Full Doc Wage Income Earner types:

Wage / Income Earner Type				
Required Documentation	**24 Month Full Doc Wage Earner**	**12 Month Full Doc Wage Earner**	**24 Month Full Doc Self-employed**	**12 Month Full Doc Self- employed**
Paystubs	Current paystub dated within 30 days of application date that includes all year-to-date earnings		N/A	N/A
W-2 Forms	Most recent 2 years	Most recent 1 year	N/A	N/A
VVOE	10 business days prior to note date		20 business days prior to note date	
Third Party Verification of Business	N/A	N/A	Verification Business has been established for a minimum of 2 years: • from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or • by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory	

			assistance. The lender must document the source of the information obtained and the name and title of the lender's employee who completed the verification.	
Personal Tax Returns	Most recent 2 years 1040's including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment)	Most recent 1 year 1040's including all schedules when qualifying other income sources in addition to wage income where tax returns are required (e.g. rental income, self-employment)	Most recent 2 years Form 1040 including all schedules and YTD P&L.	Most recent 1 year Form 1040 including all schedules and YTD P&L.
Partnership Returns	N/A	N/A	Most recent 2 years Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.	Most recent 1 year Form 1065 (Partnership) or Form 1120S (S-Corp) including Schedule K-1's and YTD P&L.
K-1s **(if applicable)**	N/A	N/A	Most recent 2 years PLUS YTD P&L	Most recent 1 year PLUS YTD P&L
Corporate Tax Returns	N/A	N/A	Most recent 2 years Form 1120 and YTD P&L	Most recent 1 year Form 1120 and YTD P&L

- Each tax return must be signed by the borrower unless one of the following signature alternatives has been obtained:
    - documentation confirming that the tax returns were filed electronically,
    - a completed IRS Form 4506–C (signed by the borrower) for the year in question, or
    - IRS transcripts that validate the tax return.
- If business/self-employed borrowers tax returns are on extension, then the borrower will need to supply their most recent filed tax return and a signed P&L through the most recent quarter (if applicable) and a P&L from previous year.

5.1.3 Unscheduled Income

Borrowers can receive income from many different sources and different pay structures. The following details describe methods used in determining a borrower's average monthly income based on these income source variations. Applicants with unscheduled income are eligible borrowers according to the following guidelines and requirements:

Bonus, Commission and Overtime Income

- A two-year history receipt is required. Borrowers in the same line of work but with different employers will be considered on an exception basis.
- Documentation requirements: In addition to a current paystub and W2's, obtain a written verification of employment (WVOE), breaking down bonus, commission and/or overtime pay for the current year as well as the prior 2 years. Absent a WVOE, year-ending paystubs from the prior 2 years can be used to verify 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. When that is the case, and the annual bonus has been paid out as evidenced by the current paystub, that figure must be annualized for income calculation purposes.
- A declining trend should be carefully considered whereby an appropriate income calculation should be 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

Seasonal Employment/Unemployment

- 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.
- A Written Verification of Employment (WVOE) is required stating that there is a reasonable expectation of returning the next season
- Unemployment Compensation for time-off has been 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

Rental Income- Full Doc- All properties except departing residence

- Required Documentation: Most recent year's personal tax return including Schedule E. In addition, a copy of a current unexpired, executed lease is required along with the most recent 2 months proof of rent receipt (e.g. cancelled checks, bank statements). If the lease is not current, the lease mut indicated that the original term converts to month-to-month or there must otherwise be evidence that the lease converted month-to-month. Rental income must be derived solely from the ownership of rental properties as declared on the Schedule E.

- For newly acquired rental property, a copy of the executed lease is required along with verification of the security deposit and evidence that first month's rent has been deposited into the borrower's account. The property may not be leased to a family member. The property must have been purchased subsequent to the most recent tax year (i.e. would not yet be reported on Schedule E).
- For purchase transaction of an investment property, copies of the current lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If property is not currently rented (i.e. vacant per appraiser), or if the existing lease is not being transferred to the borrower, then lease agreements are not required and appraisal Form 1007 or 1025 (as applicable) will be used to determine gross market rent.
- Rental income from short term leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals) are allowed with a two-year history (12 months if doing a one year income program) 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. Short-term rental income for the subject property in a purchase transaction is not allowed and Form 1007 or 1025 cannot derive market rent based on 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 must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance).
- The appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least rental comparable with an accessory unit in which the ADU receives rental income.
- Multiple accessory units are not permitted
- <u>Refinance:</u> Market rent for the accessary unit should be documented on Form 1007, and the file must include a copy of the current lease with two months proof of current receipt.
- <u>Purchase:</u> Use the lesser of the market rent on Form 1007 or the lease agreement if the subject is an investment property. Rental income from an ADU is not allowed for primary residences and second homes.
- Landlord history is not required to use rental income under the Full Doc Program.
- FNMA Form 1007 is required for all non-owner-occupied transactions when rental income is used to qualify.

<u>Departing Residence (rental income)</u>

- The property may not be leased to a family member
- Lease agreement must be for a minimum 12-month term
- Copy of the executed lease, verification of security deposit **and** proof of the first-month's rent deposited to borrower's account OR
- A recently completed appraisal Form 1007 or 1025 (as applicable) can be used to determine gross market rent

NOTE: In all rental income instances (including an ADU), qualifying rental income will be gross rents x 75% to account for vacancy losses and ongoing maintenance expenses.

Housing and Automobile Allowance:

- Please refer to FNMA Guides

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:

      1) Current stock price, or

      2) 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.

Interest and Dividend Income:

- The most recent 2 years of personal tax returns including Schedule B are required.
- 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.
- Ineligible Interest and Dividends - Any taxable interest or dividend income that is not recurring must be deducted from the borrower’s cash flow.

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

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.

5.1.4 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 lender is responsible for ensuring that the borrower has the capacity to repay the loan and meets ATR requirements.

5.1.5 Determining Income for Self-Employed Borrowers

Business Verification

- A Third-Party Verification of the existence of the borrower's business is required within 120 business days of the Note date.
- Verification must be from a third-party, such as a CPA, Enrolled Agent, CTEC or Chartered Tax Adviser, Third-party Licensed Tax Preparer (excluding PTIN tax preparers, 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.
- **General Requirements for Self Employed Income (Full Doc)**
    - 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' Form1040s. Case-by- case determinations will be made if the business shows a decreasing/downward trend.

- 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 previous successful employment in the same line of work in which the person is currently 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.
- Copies of all required business licenses are required.
- A YTD P&L is required.

- **Cash Flow Analysis (Full Doc)**
  - 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 that 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 minus 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

5.1.6 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:

- **<u>Sole Proprietorship</u>:**
  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.
- **<u>A Partnership (General or Limited)</u>:**
  Is when 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.
  - YTD P&L and Balance Sheet prepared by a CPA or borrower.
- **<u>Limited Liability Company (LLC):</u>**
  An LLC is a business structure that blends the tax efficiencies of a partnership and the limited liability of a corporation. LLCs report profit or 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 or 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 with all applicable schedules.
  - Schedule K-1 (Partner's Share of Income) for the most recent 2 years.
  - YTD P&L and Balance Sheet prepared by a CPA or borrower.
- **<u>S Corporation:</u>**
  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. Tax returns must be signed by the borrower with all applicable schedules.
  - Schedule K-1, Shareholder's share of income, deductions, credits etc., for the most recent 2-years.

  - 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.
- **C Corporation:**
  A C-Corp is a legal tax paying entity with its own rights privileges and liabilities separate from those of its owners. A C-Corp 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. Tax returns must be signed by the borrower with all applicable schedules.
  - 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).

Each tax return must be signed by the borrower unless one of the following signature alternatives has been obtained:

- documentation confirming that the tax returns were filed electronically,
- a completed IRS Form 4506–C (signed by the borrower) for the year in question, or
- IRS transcripts that validate the tax return.

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.

5.2 Alt Doc

For all loan programs and/or income options, any decline or large fluctuation in income that is documented in the file requires an explanation from the borrower regarding the decline/fluctuation.

NOTE: Form 4506-C or 8821 is not required for any Alt Doc program unless there is a co-borrower (not married to borrower) who is qualifying with full income documentation.

5.2.1 Bank Statement Analysis

The following is required for both the Personal Bank Statement option and the Business Bank Statement option:

- 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 previous successful employment in the same line of work in which the person is currently 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.

- Businesses 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 3rd party verification that the business is in existence, 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. Otherwise, they must be excluded. Cash is not an acceptable deposit source when not customary to the business type.
- Net Decrease - The underwriter must evaluate deposit and withdrawal patterns and determine whether or not the income used for qualifying is stable. Account withdrawals that are consistently greater than deposits may be a sign of declining cash flow/income. As a result, declining income may require a UW certification/attestation of why the decrease was deemed acceptable if not already addressed elsewhere in the file. Otherwise, an explanation from the borrower or their tax preparer regarding the decline may be needed. (excluding PTIN tax preparers. PTIN preparers that work for a 3rd party firm may be permitted by exception only.) and may result in loan disqualification if the income is deemed unstable. If the explanation is from the CPA/Licensed Tax Preparer, they must attest that they have audited the business financial statements or reviewed working papers provided by the borrower if they have not done so somewhere else in the loan file.

- Non-Sufficient Funds (NSF) - FundLoans defines an NSF occurrence as the account having a negative daily balance for more than 24 hours. NSFs typically result in a fee charged by the financial institution. FundLoans will allow up to three (3) NSF occurrences within the last 12 months. An LOE from the borrower must be satisfactory.
- To avoid being treated as a Non-Sufficient Funds (NSF), there should be no fee associated with resolving an overdraft. NSFs are tracked on an "instance" basis, which is defined as a single occurrence of an account being overdrawn and then brought back to a current state. An instance can involve multiple NSFs; however, it remains the same instance until the account is restored to a current balance. If the account is brought current and then becomes overdrawn again, this subsequent occurrence would be classified as a new instance.
- Overdraft Protection (OD) - FundLoans considers an overdraft to be an event where an account has gone negative but is linked with another account or line of credit with the same financial institution. FundLoans will allow these and treat them as an isolated incident (i.e not an NSF) provided the account does not end the day with a negative balance and shows a transfer from another account. An LOE from the borrower must be satisfactory.
- 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.
- FundLoans will consider other forms of income used in conjunction with the Bank Statement Program

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.

5.2.2 Personal Bank Statements

The following documentation is required:

- 12 or 24 months complete personal bank statements dated within 30 days of application (multiple personal accounts may be used), and
- Two (2) months business bank statements (to support that the borrower maintains a separate business account). If business bank statements cannot be provided to evidence a separate business account, then a 10% expense factor may be applied as long as there is no indication that the personal assets are a co-mingled account.
- Transaction histories are not acceptable.
- The initial 1003 must disclose monthly income.
- Bank statements reflecting other individuals except non-borrowing spouses who are not applicants on the loan are not eligible. When a spousal joint account is used, the borrower must be 100% owner of the business and all income/deposits from the non-borrowing spouse must be removed. All parties must attest in writing that the income/deposits being qualified belongs to the borrower.

The following applies when analyzing personal bank statements:

- 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.
- Large and/or unidentified deposits as determined by the underwriter 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 the borrower's business account.
- Cash is not an acceptable deposit source when not customary to the business type.

Income Qualification: Qualifying income is 100% of the total business-related deposits divided by 12 or 24 months (or net business-related deposits reduced by applicable expense ratio when no supporting business accounts are provided)

1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income. The letter of explanation can come from the Loan Officer or Underwriter.

5.2.3 Business Bank Statements

The following documentation is required:

- 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. Co-mingling of multiple accounts to generate a full 12 or 24 months is not permitted.

The following apply when analyzing business bank statements:

- Reasonable and Customary Eligible Business Expenses from personal bank accounts:
  - Personal bank accounts that are addressed to a DBA
  - Personal bank accounts that can evidence use for business expenses
  - Blended bank statements are allowed on an exception basis with sole proprietor structure
- Wire transfers from other accounts must be either documented as business-related or excluded from the income/deposit calculation. Cash is not an acceptable deposit source when not customary to the business type.
- Transaction histories are not acceptable.
- Borrowers must have at least 25% ownership of the business. The lender must verify the borrower's percentage of ownership. 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. PTIN preparers that work for a 3rd party firm may be permitted by exception only.), an Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or a Business Certificate filed with a governmental agency. Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership.

Income Qualification:

<u>Method One</u>: Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by a fixed expense factor of 50%. Divide by 12 or 24 months.

- <u>Calculation Example</u>: $500,000 in total deposits X 60% ownership percentage reduced by a 50% expense factor ÷ 12 months of bank statements = $12,500/month in qualifying income.

<u>OR</u>

<u>Method Two</u>: Total deposits multiplied by the borrower's ownership percentage in the business and then reduced by an expense factor as provided by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers not allowed. PTIN preparers that work for a 3rd party firm may be permitted by exception only). Divide by 12 or 24 months. The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower.

- <u>Calculation Example</u>: $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/month in qualifying income.

OR

Method Three: Use the net income from a 12 or 24-month P&L that is prepared by a validated third-party preparer to calculate the monthly qualifying income (i.e. divide the net profit on the P&L by 12 or 24 months). 12 or 24 months of business bank statements covering the same time period as the P&L are required to support the gross revenues reported on the P&L within a reasonable amount as determined by the underwriter. **A borrower prepared P&L will not be permitted under any circumstances.** The P&L must be completed by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser (PTIN tax preparers not allowed. PTIN preparers that work for a 3rd party firm may be permitted by exception only) whereby they must attest that they have audited the business financial statements or reviewed working papers provided by the borrower.

1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income. The letter of explanation can come from the Loan Officer or Underwriter.

5.2.4 Rental Income- Alt Doc

The rental income analysis described in this section can be utilized on the following loan programs:

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

In all instances when utilizing rental income, qualifying rental income will be gross rents x 75% to account for vacancy losses and ongoing maintenance expenses. For non-subject investment properties 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 there is a newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent.

If the subject property is leased on a short-term basis utilizing an online service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of rental income. In addition, a screen shot of the online listing must show the property is actively marketed as a short-term rental.

A 5% LTV reduction is required when using STR to qualify.

The following STR loan scenarios do not require a 12-month lookback or actively marketed verification if documentation is provided showing that the home is in a short-term rental market with no restrictions (i.e. Code enforcements, county, city, HOA restrictions, etc.) as determined by the appraiser. Form 1007 or 1025 based on short-term rental comparables will be required:

- New construction properties- completed within 120 days of application
- Owner-occupied properties by the seller that are being converted to STR by the buyer
- Properties previously used as long-term rentals that are being converted to STRs may be allowed on an exception basis only.

If attempting to use rental income from a departing residence, a copy of the executed 12 month term lease, verification of receipt of the security deposit **and** proof of the first month's rent deposited to borrower's account is required. The property may not be leased to a family member. If no lease/deposit is available, a recently completed appraisal Form 1007 or 1025 (as applicable) can be used to determine gross market rent.

For purchase transaction of an investment property, copies of the current lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If property is not currently rented (i.e. vacant per appraiser), or if the existing lease is not being transferred to the borrower, then lease agreements are not required and 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 must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance),
- The appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least rental comparable with an accessory unit in which the ADU receives rental income.
- Multiple accessory units are not permitted.
- Refinance: Market rent for the accessary unit should be documented on Form 1007, and the file must include a copy of the current lease with two months proof of current receipt.
- Purchase: Use the lesser of the market rent on Form 1007 or the lease agreement if the subject is an investment property. Rental income from an ADU is not allowed for primary residences and second homes.

5.2.5 P&L Only

Required Documentation if utilizing a Profit and Loss Statement for income validation:

- A Profit and Loss Statement (P&L) covering the most recent previous 12 or 24 months (depending on loan program), valid if the most recent month is dated within 90 days of closing. The P&L must be completed and reviewed by a Certified Public Accountant, Enrolled Agent, CTEC, Chartered Tax Adviser or Independent Licensed Accountant. FundLoans does not allow PTIN tax preparers. PTIN preparers that work for a 3rd party firm may be permitted by exception only. A borrower prepared P&L will not be accepted under any circumstances.
- The acceptable 3rd party that prepares the P&L must sign and date the P&L to validate the accuracy of the P&L. The P&L may be unsigned if the 3rd party preparer signed and dated a cover letter or similar

document that accompanies the P&L delivery and specifically states they prepared the P&L provided.

- The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower if they have not done so somewhere else in the loan file.
- Proof must be provided that the appropriate 3rd party preparer who completed the P&L 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)
- Proof of business ownership percentage if the business is a corporate entity and the P&L covers the business as a whole and not just the borrower's share of the business. Borrowers must have at least 25% ownership of the business. The lender must verify the borrower's percentage of ownership. 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. PTIN preparers that work for a 3rd party firm may be permitted by exception only.), an Operating Agreement, Articles of Incorporation/Articles of Organization, a Partnership Agreement, or a Business Certificate filed with a governmental agency.

  Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership
- 3rd party documentation must be provided from which the borrower's ownership percentage can be determined. Documents which are not required to list all owners do not meet this requirement.
- P&L Only is an Alternative Documentation type and will be priced under the Apex Elite program. 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 dominant income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

5.2.6 Written Verification of Employment (WVOE)

Borrowers who have a 2-year history of employment with the same employer may utilize this program subject to the following:

- WVOE must be completed on the Fannie Mae Form 1005 sent directly to and received directly from the employer. The employment information must be completed by Human Resources, the Payroll Department or an Officer of the company. A WVOE from an online provider such as Equifax or The Work Number is also acceptable. Borrowers employed by family members or related individuals are not eligible.

- Paystub, Tax Returns or W2s are not required.
- 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.
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.
- VVOE within 10 days of closing is required.

The following apply when using WVOE only:

- Minimum FICO 680
- Primary Residence Only
- Max 80% LTV for purchase or rate/term refinance
- Max 70% LTV for cash-out refinance
- 0x30x24 housing history (rent free or any other instance of documenting less than 24 months of housing history is ineligible)
- FTHB maximum 70% LTV & 45% DTI
- No gift funds allowed

5.2.7 1099 Reduced Doc Income

Borrowers who 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 may utilize this program.

Borrower must provide the following:

- 1099 for the previous year tax year, payable to the borrower and not a business
- Verification of Employment from the current contract employer covering the most recent two years plus Year-to-Date earnings, likelihood of continued contractor status and 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.

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

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

5.2.8 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 Apex Elite Program from a credit and pricing standpoint. Please see the applicable FundLoans Matrix for restrictions. Asset Depletion is not permitted on cash-out or debt consolidation transactions. Asset Depletion is permitted on primary residences and second homes only. Gift funds are not permitted.

Qualified Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Proof of six-month seasoning of all assets is required. The most recent 6 months of account statements for all Qualified Assets are required. Balances of qualifying assets must be verified within 10 days of Note Date.

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).

- **Calculating Qualifying Income:**
  - 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

5.2.9 Asset Utilization

Asset Utilization may be used for borrowers who have significant verifiable assets and would benefit from alternative loan qualification. Asset Utilization is considered to conform to the Apex Elite Program from a credit and pricing standpoint. Asset Utilization may be used with any occupancy type. Please see the applicable FundLoans Matrix for restrictions.

- **Qualified Assets:**
  The following assets are considered Qualified Assets and may be utilized for qualification:
  - 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)
- 100% of cash value of life insurance policy

The most recent 6 months of account statements for all Qualified Assets are required. Balances of qualifying assets must be verified within 10 days of Note Date.

- **Ineligible Asset Types**
  - Gift Funds (inclusive of down payment)
  - 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.
- **DTI:** A traditional DTI is not calculated for Asset Utilization. Rather, post-closing Qualified Assets must be greater than the sum of the items noted below:
  - 100% of the loan amount.
  - 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 including the subject property taxes, insurance, HOA dues, etc. (do not include the subject property P&I).
  - Subject property reserves requirements based on the loan amount as detailed in the Reserves section of this guide.
- **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 ÷ 60 months = Total Monthly Income
  - Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income
  - Minimum residual income is $1,500/month.

    NOTE: Required reserves are not deducted from Post-Closing Qualified Assets when calculating residual income.
- **Mortgage Related Expenses:** As referenced in the DTI section, property related expenses must be accounted for in the 60-month debt calculation.
  - Subject Property: Exclude the subject P&I from the 60-month calculation (i.e. only include taxes, insurance, HOA dues, special assessments, etc.).
  - Non-Subject Properties: Include the PITIA of additional REO in the 60-month calculation. Whenever an 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 a negative cash flow, any net negative rental amount must be included in the 60-month debt total. Leases + 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. Short-term rentals are permitted. 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.

- **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.

- **Employment and Income:** Employment and income are not required to be disclosed on the 1003. 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 (for consumer contact purposes only).

- **Borrower Affirmation:** The borrower must acknowledge their ability to repay the loan by signing a Borrower Affirmation Document at closing.

5.3 Monthly Debt

- 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 will never exceed 50%. Please refer to FundLoans's Credit Matrix for maximum allowable DTI.

5.3.1 Residual Income

In accordance with ATR standards, a monthly residual income calculation must be completed. Minimum residual income is $1,500/month is required on all loan products. The formula for this calculation is:

- Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income

5.3 2 Borrower ATR Certification

Loans subject to Reg Z. Ability to Repay must include a borrower(s) certification attesting to the following:

- Borrower(s) have fully 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 borrowers ability to repay is acceptable in lieu of signed borrower disclosure for all loan programs except Asset Depletion or Asset Utilization.

(See Appendix Section for sample Borrower Attestation verbiage)

5.3.3 Subordinate Financing

Subordinate Financing is not allowed on Purchase Transactions or DSCR loans. For all other loans, FundLoans allows subordinate financing provided the following conditions are met:

- The subordinate financing doesn't have a negative amortization or interest only feature.
- Subordinate financing 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 Credit Matrix.

Required Documentation for subordinate financing:

- Copy of the Note
- Copy of the Subordination Agreement

5.3.4 Adjustable Rate and Interest Only Qualifying

- For all ARM loan transactions, the greater of the note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index.
- Interest-only ARM 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.
- Interest only loans locked as fixed rate are calculated using the fully amortized payment over the fully amortized term of the loan using the Note rate.
- DSCR loans qualify using ITIA. All DSCR Interest Only loans whether they are fixed or ARM, allow the use of the ITIA for qualification.

All ARM Notes and Riders should contain ARCC fallback language consistent with FNMA requirements.

ADJUSTABLE-RATE CRITERIA SOFR ***30 Day average SOFR index as published by the New York Federal Reserve***	
MARGIN	See current rate sheet
CAPS	5 YEAR ARM = 2/1/5 7 YEAR ARM = 5/1/5
INDEX	30 DAY AVERAGE SOFR
RESET PERIOD	6 MONTHS
FLOOR	MARGIN

5.4 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. The following is a list of established assets that can be used to determine a borrower's liquidity. Next to each asset is the value that FundLoans assigns 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 (80 % of vested balance less 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 allowed 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 window are allowed.
- Trust Accounts (100%) - Must review a copy of the full Trust.
- The use of business assets for self-employed borrowers for down payment, closing costs and reserves 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 as well. For non DSCR loans, a letter from a CPA, Third-Party Tax Preparer (excluding PTIN tax preparers) or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If a CPA/Tax Preparer letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the underwriter to determine if the withdrawal of funds from the business is acceptable. If no balance sheet provided, FundLoans will accept a lender cash flow analysis of 12 months business bank statements. Documentation showing sole member entity or sole proprietor is acceptable to indicate 100% ownership.
- 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 6.7.1 Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
    - Cryptocurrency, such as Bitcoin, are an eligible source of funds for down payment and closing costs

and reserves. For down payment and closing cost, the assets must be liquidated and deposited into an established US 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 borrower transfers the cryptocurrency into a U.S. financial institution prior to closing, 100% of the funds can be used for reserves.

- Delayed 1031 Exchange funds (aka “like-kind exchanges”) are eligible for EMD, down payment and closing costs. 1031 Exchange funds are not eligible for reserves.

5.4.1 Verification of Assets

The lender may use any of the following types of documentation 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. Direct verification by a third-party asset verification vendor is acceptable as long as the lender follows Fannie Mae guidance on this topic.

- 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.

- Large deposits must be sourced. Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. For DSCR loans, large deposits must be sourced at the underwriters discretion

- The statements may be computer generated forms, but must include or state the following:
    - Clearly identify the borrower as the account holder, the account numbers, the time the statements cover. Include all deposits and withdrawal transactions. The report must include 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.

5.4.2 Other Requirements

- Assets must be seasoned for 30 days, and any large deposits as determined by the underwriter must be sourced.

- Gift Funds:
    - 100% of gift funds are allowed on owner-occupied transactions
        - For second homes and investment properties, the borrower must demonstrate they

have a minimum of 10% of their own funds for the down payment. The borrower does not have to actually 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
- Gifts of Equity are not allowed on Investment Properties. See Gift of Equity Guidelines

- Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment

5.4.3 Reserves

Reserve Requirements	
Loan Amount	**Months PITIA Required**
< $1,000,000	3 Months
$1,000,000 - $1,500,000	6 Months
> $1,500,000	9 Months
First Time Investor	12 Months
Foreign National	12 months PITIA reserves plus 2 months for each additional financed property
R/T Refinance with LTV of 65% or less	No minimum reserves required

- Reserves are not stacked with the exception of Foreign Nationals which require reserves for additional financed properties.
- For IO loans reserves are based on the IO payment amount.
- Cash Out proceeds can be used to satisfy reserve requirements.

5.4.4 Seller Concessions

Occupancy	LTV	Max Percentage
Primary and 2nd Homes	≤75	9%
Primary and 2nd Homes	75.01 – 80.00	6%
Investment	All	6%

Seller Concessions include:

- Financing concessions greater 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 excess 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.

5.5 Debt Service Coverage Ratio (DSCR) Transactions

For DSCR loans, borrowers are not required to disclose employment information on the application (Form 1003). Income derived from regular employment, retirement or other investments should not be disclosed and tax returns are not required. The application should otherwise be fully completed including the Schedule of Real Estate Owned listing all properties owned and reflective of any associated mortgages (including private mortgages).

5.5.1 Experienced Investors

An experienced investor is defined as a borrower with proof of ownership and/or management of residential and/or commercial rental real estate for at least one year in the last 3 years. A borrower working in the property management industry constitutes experience and is acceptable.

5.5.2 First Time Investors

First Time Investors are borrowers who do not meet the definition of an experienced investor. First Time Investors are permitted as follows:

- Minimum FICO per FundLoans matrix

- Minimum 1.00 DSCR
- 12 months reserves
- Verified 12-month housing payment history, and
- Max 75% LTV

5.5.3 Occupancy and Documentation Requirements

Only 1 to 4-unit residential investment properties are eligible for the Spectrum Elite DSCR Product. Neither the borrower nor any relative of the borrower (direct or through marriage) can occupy the subject property.

All loans **require a borrower executed Business Purpose and Occupancy Affidavit**. The borrower(s) must acknowledge that the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose Affidavit (sample document included in the 8.0 Appendix Section of this guide).

Any loan whereby the proceeds are used for personal, family, or household purposes is considered a consumer transaction and is ineligible for the DSCR Program. This includes cash-out on investment properties where the loan proceeds are used for any personal use (i.e. paying off consumer debt).

5.5.4 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 whereby that payment history meets the requirements of the Spectrum Elite Program Credit Matrix. Housing history for the DSCR Doc type 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 (e.g. cancelled checks not required). Verifications dated within 30 days of application do not require to be updated unless more than 60 days at time of Note date. If a borrower is renting their primary residence, a VOR from the landlord is required with no additional documentation (e.g. cancelled checks not required).

- 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). Documentation verifying free and clear is required such as property detail report, data verify report, title search, etc.
- 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 such mortgage that is reporting to the credit bureaus is subject to the housing rating requirements per the Spectrum Elite Program Credit Matrix.

5.5.5 No Housing History or Less Than 12 Months Verified

This section applies to 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. 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 as documented by 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.

5.5.6 Debt Service Coverage

Borrowers financing non-owner-occupied investment properties 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 for the transaction. Debt Service Coverage is available to Experienced Investors and First Time Investors based on the requirements in this Selling Guide.

The Debt Service Coverage Ratio (DSCR) is calculated as follows:

- 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 plus taxes, insurance, and HOA dues). PITIA or ITIA is based on the Note Rate of the loan for Fixed Rate loans. For ARM loans, see Section 5.3.4
- Rounding up of the DSCR value is permissible from the 3rd decimal.
- Interest Only loans require a minimum FICO score as per the Spectrum Elite Program Credit Matrix.

On DSCR Purchase transactions, the qualifying Gross Rental Income figure is the higher of the market rent on Form 1007/1025 or the current lease. The amount that may be used for qualifying is based on the following:

- When the market rent on Form 1007/1025 is greater than the current lease, the underwriter may use the Market Rent amount as listed not exceeding 120% of the lease amount to qualify. (e.g. lease is $1,100 and Form 1007/1025 is $1,500, then $1,320 may be used to qualify). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required. If the subject is vacant as indicated by the appraiser, use the market rent from Form 1007/1025 with no vacancy factor.
- When the Lease is greater than the market rent, 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). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.
- Short-Term Rental Income: If the subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of the rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental.
- A 5% LTV reduction is required when using short-term rental income to qualify
- The following STR loan scenarios do not require a 12-month lookback or actively marketed verification if

documentation is provided showing that the home is in a short-term rental market with no restrictions (i.e. Code enforcements, county, city, HOA restrictions, etc.) as determined by the appraiser. Form 1007 or 1025 based on short-term rental comparables will be required:

- New construction properties- completed within 120 days of application
- Owner-occupied properties by the seller that are being converted to STR by the buyer
- Properties previously used as long-term rentals that are being converted to STRs may be allowed on an exception basis only.

On DSCR Refinance transactions, the qualifying Gross Rental Income figure is the higher of the market rent on Form 1007/1025 or the current lease. The amount that may be used for qualifying is based on the following:

- When the market rent on Form 1007/1025 is greater than the current lease, the underwriter may use the Market Rent amount as listed not exceeding 120% of the lease amount to qualify. (e.g. lease is $1,100 and Form 1007/1025 is $1,500, then $1,320 may be used to qualify). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required. If the subject is vacant as indicated by the appraiser, use the market rent from Form 1007/1025 with no vacancy factor.

- When the Lease is greater than the market rent, 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). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.

- Leases are required to be no less than twelve (12) months but may convert to month-to-month upon expiration.

- Short-Term Rental Income: If the subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of the rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. A 5% LTV reduction is required when using short term rental income to qualify.

- The following STR loan scenarios do not require a 12-month lookback or actively marketed verification if documentation is provided showing that the home is in a short-term rental market with no restrictions (i.e. Code enforcements, county, city, HOA restrictions, etc.) as determined by the appraiser. Form 1007 or 1025 based on short-term rental comparables will be required:

    - New construction properties- completed within 120 days of application
    - Owner-occupied properties by the seller that are being converted to STR by the buyer
    - Properties previously used as long-term rentals that are being converted to STRs may be allowed on an exception basis only.

For properties defined as a one-unit property with an accessory unit (ADU), rental income may be qualified from the accessory unit subject to the following:

- Appraisal must reflect that the zoning compliance is legal (permits are not required to establish zoning compliance),
- The appraisal must include at least one sales comparable with an accessory unit, and Form 1007 must include at least rental comparable with an accessory unit in which the ADU receives rental income.
- Multiple accessory units are not permitted.
- **Refinance:** Market rent for the accessary unit should be documented on Form 1007, and the file must include a copy of the current lease with two months proof of current receipt.
- **Purchase:** Use the lesser of the market rent on Form 1007 or the lease agreement.

The Debt Service Coverage Ratio (DSCR) must be greater than or equal to the published minimum as referenced on the Spectrum Elite Program Credit Matrix to be eligible for funding by FundLoans. The underwriter must supply their DSCR calculated ratio/score result, i.e., the ratio result is notated on the loan approval/1008, or underwriter's DSCR Calculation Worksheet.

5.5.7 Foreign National (DSCR Program Only)

A Foreign National is a citizen of a country other than the United States who resides outside of the U.S., who has not become a naturalized U.S. Citizen. Foreign National Borrowers are eligible only under the DSCR program.

Eligibility

- Foreign Nationals, as defined by U.S Citizenship and Immigration Services (USCIS), are eligible borrowers when the borrower resides from one of the following countries/continents:
    - Canada
    - Caribbean (Except Cuba)
    - China (Except Hong Kong)
    - Europe (Except Balkan Region, Belarus, Russia, and the Crimea, Donetsk, Luhansk, Kherson, and Zaporizhzhia regions of Ukraine)
    - Latin America (Except Nicaragua)
    - South America (Except Venezuela)
- Foreign Nationals from any other country not listed above or from any Country comprehensively sanctioned by OFAC (currently Cuba, Iran, North Korea, Syria, and the Crimea, Donetsk, and Luhansk regions of Ukraine) are ineligible.

Verification of Residency Status

- The following visa types are permitted as foreign nationals: B-1, B-2, J-1, J-2. Visas must be valid through the Note date. Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record)
- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other foreign national

documentation requirements. Co-borrowers in possession of spouse or family member visas may be considered on an exception basis.

- Participating countries can be verified through the U.S. Department of State website at: https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html

Exclusionary List/OFAC/Diplomatic Immunity

- All parties involved on each transaction must be screened through any exclusionary list used by the originator. The originator should apply its exclusionary list policy to any loans originated under these guidelines. However, business purpose loans require only interested parties such as buyers and sellers.
- Parties to the transaction must also be cleared through OFAC's SND List (borrowers, sellers, employers, banks, etc.). A search of the Specially Designated Nationals and Blocked Persons List may be completed via the U.S. Department of the Treasury website: https://sanctionssearch.ofac.treas.gov/
- Borrowers from jurisdictions comprehensively sanctioned by OFAC are ineligible (at present, those jurisdictions include Cuba, Iran, North Korea, Syria, and the Crimea, Donetsk, and Luhansk regions of Ukraine). are ineligible. Access the link below for a list of sanctioned countries: https://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx
- Individuals with diplomatic immunity are ineligible due to the inability to compel payment or seek judgment. Verification that the borrower does not have diplomatic immunity can be determined by reviewing the visa and/or passport.

Income Eligibility

- DSCR Calculation

Credit Requirements- Foreign National Program

Foreign National Borrowers without qualifying U.S. Credit (including borrowers without a valid Social Security Number and borrowers with or without an Individual Tax Identification Number) must provide evidence of three (3) active credit trade lines with a 2-year history from their country of origin. If a housing / mortgage trade line is provided - No derogatory mortgage history is permitted in the last 24 months. ANY combination of the following is acceptable to arrive at the trade line requirement. Satisfactory credit reference letters will assume a Foreign Credit distinction for locking and qualifying purposes.

- Trade lines evidenced via a U.S. credit report; AND/OR
- Trade lines evidenced via international credit report if a U.S. credit report cannot be produced or does not provide a sufficient number of trade lines; AND/OR
- Minimum 3 active credit trade lines evidenced via credit reference letter and supporting transaction history from county of origin.
    - Trade lines evidenced via credit reference letters from verified financial institutions (including those where savings/checking accounts are maintained) in the borrower's country of origin if a U.S. credit report and/or international credit report is not available, or the combination of the

credit reports does not provide a sufficient number of trade lines
  - A minimum of 1 reference letter must be from an internationally known financial institution
  - Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 24-month payment history
  - A single reference source may provide verification of multiple accounts. Individual account detail must be provided
  - The letter must mention the borrower by name
  - Name, title & contact information of the person signing the letter must be included
  - Currency must be converted to U.S. Dollars and signed and dated by certified translator

- Credit report and reference letters must be dated within 60 days of the date of the loan documents. If more than 60 days, a new credit report must be obtained, or updated reference letters provided. Credit report and any reference letters must be translated by a 3rd party with confirmation in file.

- A two (2) year housing history is required.

Assets- Foreign National Program

- Foreign National borrowers must have twelve (12) months PITIA reserves plus two (2) months for each additional property
- All funds for down payment, closing costs and reserves must be sourced and seasoned for 60-days and must be in a US account for 30 days
- Foreign bank accounts must be verified in U.S. Dollar equivalency at the current exchange rate via either https://www.xe.com/ or https://www.wsj.com/market-data/currencies/exchangerates conversion tables. The exchange conversion web print-out must be documented in the loan file.
- The foreign bank must be a publicly traded internationally known financial institution. A search may be conducted via a web site such as https://finance.yahoo.com/. The web print-out must be documented in the loan file.

Gift Funds

- Gift Funds are ineligible for the Foreign National Program

Maximum Loan Exposure to One Borrower

- The maximum loan exposure to one Foreign National borrower is limited to two (2) FundLoans loans

Occupancy

- All Foreign National loans are considered investment properties

Vesting

- Vesting in a Business Entity or Trust is not permitted

6.0 Collateral

6.1 Eligible Property Types

- Single Family Dwelling
- Single Family Dwelling with 1 Accessory Unit (ADU)
- Multi Family Dwelling 2-4 Units
- Planned Unit Development (PUDs)
- Condominium
- Modular homes

6.2 Ineligible Property Types

Assisted Living	Mortgage Loans financing builder inventory
Agricultural properties	Padsplits
Barndominiums	Properties with less than 500 sq. ft. total living space
Boarding houses	Properties Under Construction
C5 or C6 property condition grades	Rural properties greater than 20 acres
Commercial properties	Tenancy in Common properties (vesting ok)
Geodesic domes	Time-shares
Leaseholds	Unique Properties
Log Homes	Working Farms
Manufactured housing or Manufactured Homes	Vacant lots
Mixed Use	Work escrows are not permitted
Model Home Leasebacks	

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.

6.3 Declining Markets

The appraiser determines if a property is located in a declining market. Within the Neighborhood section of the appraisal, the Housing Trends subsection provides information on Property Values, Demand/Supply and Marketing Time. When the appraiser marks the Declining box for Property Values, the property is considered to be located in a declining market. For any property located in a declining market where the LTV is > 65%, a 5% LTV reduction is required.

6.4 Flips

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
- No assignments of the contract to another buyer
- 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

6.5 Transferred Appraisals

Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed. Appraisal transfers are subject to the following requirements:

- The appraisal must be less than 60-days old at the time of transfer (less than 120-days at closing) and ordered through an approved Appraisal Management Company
- A letter must be obtained from the original lender on company letterhead stating they are transferring the appraisal to the approved FundLoans lender. The letter must transfer the ownership and rights for the specific transaction.
- The Lender must certify they have complied with Federal, State and FNMA Appraisal Independence requirements
- An appraisal delivery form must be provided to the borrower to confirm the borrower's receipt of the appraisal within three (3) business days of the report's completion

If the original Lender will not transfer the appraisal or provide the transfer letter, then a new appraisal is required.

NOTE: Subject to FIRREA Requirements; if corrections are required, it is the Broker/Originator's responsibility to work with the previous lender to obtain them and FundLoans will not review.

6.6 Condo Project Review Warrantable

- FNMA eligible projects are allowed.
- Site Condos meeting the FNMA definition are eligible for single-family dwelling LTV/CLTV.
- Maximum project exposure to FundLoans shall be $2,000,000 or 15% of the project whichever is lower.

NOTE: UW Attestation and/or documentation clearly stating whether the property is a warrantable or non-warrantable condo must be delivered with the file. Lender to provide CPM approval or Condo Questionnaire as applicable.

6.7 Condo Project Review Non-Warrantable

Non-warrantable condominiums are eligible based on the following characteristics. See Credit Matrix for LTV restrictions.

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	**EXCEPTION CONSIDERATIONS**
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial must be “typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
COMPLETION STATUS	The project, or the subject’s legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
CONDOTELS	• Maximum LTV/CLTV Purchase: 75% • Maximum LTV/CLTV R/T and Cash-Out: 65% • Minimum Loan Balance: $150,000 • Maximum Loan Amount: $1,000,000 • Max DTI 50% or Min DSCR of 1 • Primary, Second Home and Investments • Investor concentration, within the subject project, may exceed established project criteria, up to 100% • Minimum square footage of 475 and at least 1 Bedroom required • Fully functioning kitchen – define as a full-size appliance including a refrigerator and stove/oven • Projects with names that include the words “hotel,” “motel,” “resort,” or “lodge” are acceptable Project must have obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines
DELINQUENT HOA DUES	No more than 35% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%.

HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA RESERVES	HOA Budget must include a dedicated line item allocation to replacement reserves of at least 8% of the budget.
LITIGATION	Pending litigation may be accepted on an exception basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
NEW PROJECTS	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract. HOA should be in control-project under Developer or Builder control will be considered on an exception basis only.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 50%.

6.8 Co-ops

Investment property Co-ops are an eligible occupancy type. Other than investment property allowances, FundLoans follows Fannie Mae Co-op guidelines.

In order for a co-op share loan to be eligible for sale, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The loan or project approval file must contain evidence regarding the project's compliance with Section 216. Title reports are not required when property type is a Co-op.

The co-op housing project must:

- be designed principally for residential use;
- consist of two or more units; and
- be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area.

6.9 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:

- Uniform Residential Appraisal Report (URAR) with color photos is required
- FNMA form 1004 / FHLMC Form 70 for use on one-unit properties including individual units in Planned Unit Development (PUD) projects. See FNMA or FHLMC for required appraisal forms to be used on specific properties.

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 of value per FNMA 1004 D 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. Additionally, FundLoans reserves the right to require additional appraiser re-valuation reports depending on age of documentation at time of full loan delivery.

- See FundLoans Credit Matrix for additional appraisal requirements

6.10 Valuation Overview

FundLoans uses FNMA Guidelines as our 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 in excess of the predominant value of the subject market area are acceptable provided they are supported by similar comparables and also represent the highest and best use of the land as improved
- See complete FNMA Guides at https://selling-guide.fanniemae.com/Selling-Guide/
- See complete USPAP Guides at www.uspap.org

6.11 Appraiser Independence

FundLoans expects to receive 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
- FundLoans prohibits associates from asking appraisers to report a predetermined value or withhold disclosure of adverse features
- All appraisals must be ordered through an Appraisal Management Company (AMC)

We will not accept an appraisal from an appraiser who works for the lender, borrower or any parties affiliated with the transaction. All appraisals will be following 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 an independent third-party.

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

6.12 Appraisal Review Requirements

Appraisal reviews are required for all loan amounts. Either LCA or CU can be used if score is 2.5 or less as long as they were pulled around the same date.

- CU or LCA Score ≤ 2.5 is acceptable with no other valuation required. If the CU/LCA Score is > 2.5, a desk review from one of the following is required:
    - Collateral Desktop Analysis (CDA) from Clear Capital
    - Appraisal Risk Review (ARR) from Proteck/Stewart
    - ARA from Computershare
    - CCA from Collateral Analytics VRR from Homegenius (previously Red Bell)
    - Valreview from Veros Software

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 desk review value.

- If CDA or APR are not available, then another appraisal or a field review will be required. If a field review is used in lieu of a CDA or APR, the value must be within 10% of the appraised value.

- All mortgage transactions, whether it is a purchase or a refinance, will require a Disaster Inspection Report. 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.
- 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.

6.13 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.

FundLoans requires coverage provided by American Land Title Association (ALTA) or an equivalent association. 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 FundLoans underwriters. FundLoans will not allow loans that are held in an Irrevocable Trust.
- 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 title 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
- 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 FundLoans's subordination guides.
- Liens and Judgments - Any liens (federal tax liens, mechanic's liens, etc.) or judgements 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 judgement(s). These judgments should not be on the final title policy. Solar liens are to 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 easement. However, if the title company will not provide insurance, then the encroachment must be reviewed by the underwriter to determine if this will materially affect the value of the property/improvements or our security interest.
- Surveys - All survey exceptions must be cleared on all loan products. FundLoans will defer to the title company to advise on what is necessary to remove the survey exception.
- Homeowners Association Dues - 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 - 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.
- Rebuild in Coastal Areas - The application will be denied if the subject property is in a coastal area and cannot be rebuilt.
- Oil and Gas Leases and Mineral Right - FundLoans will require affirmative language if they remain as exceptions on the final title policy. We must confirm that these leases do not provide for any surface rights. If lease does provide for surface rights this property will be ineligible for sale to FundLoans.
- 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 for sale to FundLoans.

Unacceptable Title Defects can be, but are not limited to, the following:

- Open liens, judgements, taxes, or tax liens
- Non-clearance of a probated property
- Foreclosure
- Properties with unexpired redemption periods

6.14 Title Policy Requirements

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

Endorsements

FundLoans requires all applicable endorsements to 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)

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 to be signed and dated by non-borrowing 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.

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 by the lender for easements, encroachments, flood zone impacts and possible boundary violations.

6.14.1 Title Vesting

Fee Simple with Title Vesting as:

- Individuals
- Joint tenants
- Tenants in Common

- Inter-Vivos Revocable Trust
- Vesting in an Entity –Investment Properties Only- requirements below:
  - Entity must be domiciled in a U.S. state.
  - Business structure is limited to a maximum of four (4) owners/members.
  - Personal Guarantees must be provided by all members of the Entity who qualify for the loan. However, if a borrower signs as an individual and not as a member, a personal guarantee is not required.
  - Each Entity member on the loan must sign the security instruments.
  - Each Entity member providing a personal guarantee must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member providing a personal Guarantee and their credit score, and creditworthiness will also be used to determine qualification and pricing.

NOTE: Vesting in a life estate is not allowed.

NOTE: Power of Attorney's (POA's) are eligible except for cash out loan programs, or when closing/vesting in the name of 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, provide UW cert or supporting documentation to confirm.
  - Certificate of Good Standing
  - Certificate of Authorization for the person executing all documents on behalf of the Entity
  - LLC Borrowing Certificate required when all members are not on the loan.

- Corporation:
  - Filed Certificate/Articles of Incorporation (including all amendments)
  - By-Laws (including all amendments)
  - Certificate of Good Standing (issued by the Secretary of State where the business is incorporated)
  - Tax Identification Number (EIN). In any case where a sole proprietor is using SSN in lieu of EIN, provide UW cert or supporting documentation to confirm.
  - Borrowing Resolution/Corporate Resolution granting authority of signor to enter into a 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 Secretary of State may not be required)
  - Partnership Agreement (and all amendments)
  - Certificate of Good Standing (issued by the Secretary of State where the Partnership is registered)
  - Tax Identification Number (EIN). In any case where a sole proprietor is using SSN in lieu of EIN, provide UW cert or supporting documentation to confirm.
  - Limited partner consents (where required by partnership agreement).

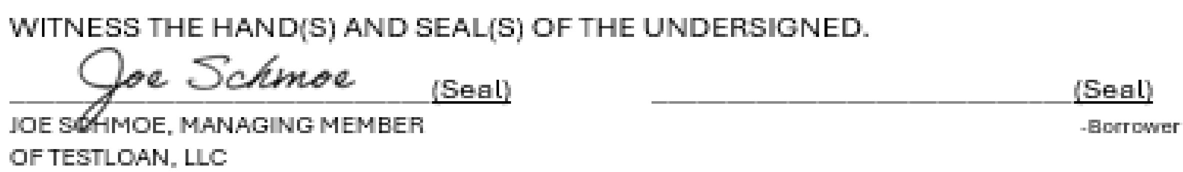
NOTE: Official documentation issued by a CPA, a Third-Party Tax Preparer (excluding PTIN tax preparers), the state or IRS should be used to satisfy documentation requirements. Fillable PDF's (i.e W9's) or emails from borrowers are not sufficient.

Signature Examples When Closing In an Entity

If loan is closing with a Prepayment Penalty, review the [Prepayment Penalty Guide] for any state specific requirements.

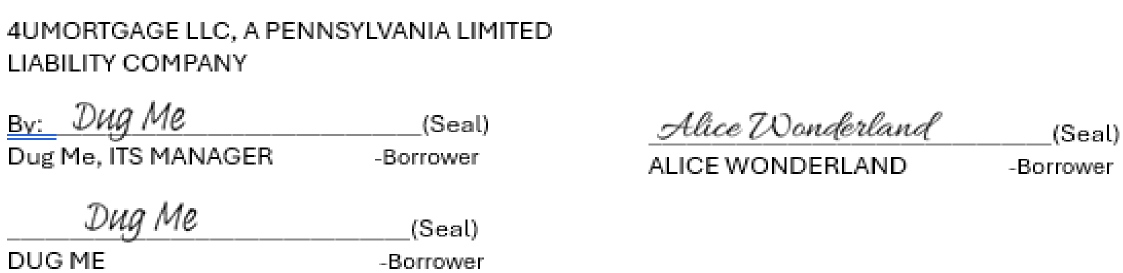
If Note is signed only as the member or business representative, the borrower must sign a Personal Guaranty.

Example:


WITNESS THE HAND(S) AND SEAL(S) OF THE UNDERSIGNED.
Joe Schmoe (Seal)
JOE SCHMOE, MANAGING MEMBER
OF TESTLOAN, LLC
(Seal)
-Borrower

If the Note is signed as the member or business representative and as an individual or guarantor, the borrower(s) are not required to sign a Personal Guaranty.

Example:


4UMORTGAGE LLC, A PENNSYLVANIA LIMITED
LIABILITY COMPANY
By: Dug Me (Seal)
Dug Me, ITS MANAGER -Borrower
Dug Me (Seal)
DUG ME -Borrower
Alice Wonderland (Seal)
ALICE WONDERLAND -Borrower

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 the loan will be closed in the name of.
Co-borrower	Any borrower (other than the Primary) who is jointly responsible for repayment of the loan with the Primary Borrower.

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.

6.15 Hazard Insurance Requirements/Condo (HO6)

Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. FundLoans requires hazard insurance protection on all loans with an effective date on or before closing. A declaration page is required prior to closing for all loans as proof of insurance. On all refinance transactions, if the coverage termination date is within 30 days of the closing, FundLoans will require evidence of continuing coverage. 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

Evidence of Insurance Requirements:

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

Deductibles:

- Family Residences – The maximum allowable deductible, to include any separate wind-loss or other separate deductible that apply to a specific property element, is 5% of the face amount of the policy
- Condos, Co-ops, 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 co-op or 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.

Determining the amount of required Hazard Coverage:

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 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 they have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

Hazard Insurance coverage should be in the amount of the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer or reputable 3rd party source (i.e., CoreLogic);
- Estimated cost to replace as notated on appraisal delivered with 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.

Flood Insurance:

Flood insurance coverage is required when a loan is secured by a property located in a Special Flood Hazard Area (SFHA), or a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). FundLoans follows Fannie Mae Guidelines in regards to Flood Insurance Coverage Requirements.

The lender must determine whether the property is located in an SFHA, a CBRS, or an OPA by using the FEMA Standard Flood Hazard Determination form. All flood zones beginning with the letter "A" or "V" are considered SFHAs.

Note: If the subject property is located within a CBRS or an OPA, flood insurance is required regardless of whether the property is located in an SFHA.

The minimum amount of flood insurance required must be equal to the lesser of:

- 100% of the replacement cost value of the improvements,

- the maximum coverage amount available from NFIP, or
- the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).

7.0 Miscellaneous

7.1 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. 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.

7.2 OFAC and Watchlist Search Parties

Watchlists verifications compare all participants names to industry and lender exclusionary lists to identify high risk participants. Provide documentation to confirm all parties to the transaction such as borrowers, entities holding title and all owners, sellers, realtors, realtor brokerages, closing attorney, lender/originator and loan officer were successfully checked and not included on these lists. For refinances, the borrowers, entities holding title and all owners, closing attorney/title agent, originator and loan officer should be included in the searches. Any high alerts or red flags must be addressed or cleared by the underwriter.

7.3 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 from FundLoans.

7.4 Age of Documents

Credit bureau and liability documentation 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.

7.5 Property Taxes

The lender must document the real estate taxes used to determine the monthly housing expense used to calculate the debt-to-income (DTI) ratio. 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 we need one of the following to document the proposed property taxes based 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
- Copy of calculation worksheet using mileage rate + purchase price OR appraisal cost new estimate (if shown on appraisal) needs to be provided.

NOTE: FundLoans will not cannot accept previous years tax bill that does not show current improvements (i.e. land only is assessed)

7.6 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.

7.7 Maximum Financed Properties

- FundLoans's exposure may not exceed $7.5mm or 10 loans aggregate to any one borrower
- DSCR <1 is limited to a maximum exposure of $2mm to any one borrower
- A borrower may own up to 20 financed properties including 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

7.8 Disaster Policy

FundLoans permits 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, subject to the following conditions:

- FundLoans reserves the right to require a written certification from the appraiser, a Disaster Inspection Report, which indicated 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 time of closing on the physical condition of the property. See Doc Magic Doc Prep for a copy of this document.

8.0 Exceptions

Exceptions to these Guides can be made at FundLoans' discretion by submitting a FundLoans Exception Request form to FundLoans. The Underwriter should review the loan file to ensure prudent underwriting was used as well as listing compensating factors for the loan exception on the form.

FundLoans is under no obligation to fund loans that meet these guidelines or has an exception on the loan file. Compliance with these guides does not create a commitment by FundLoans to fund. Any loans that will be funded are at the sole discretion of FundLoans.

9.0 Appendix

- Sample Borrower Ability to Repay Attestation Verbiage
- Sample Business Purpose and Occupancy Affidavit
- Sample Condo Questionnaire (Limited Review)
- Sample Condo Questionnaire (Full Review)
- Sample Personal Guaranty Agreement
- Exhibit A- Prepay Penalty Reference Guide

Borrower Ability to Repay Attestation

Disclosure Date	
Loan Number	
Lender	
Borrower Name(s)	
Property Address	

Before approval of your mortgage loan, we must ensure that we are making a loan that you can afford. To determine whether you could repay the mortgage loan, we will collect, verify, and analyze specific financial information regarding your current income, assets and debt obligations.

At a minimum, we will consider the following eight factors to determine your ability to repay:

- Your current income or assets
- Your current employment status
- Your credit history
- The monthly payment for the mortgage
- Your monthly payments on other mortgage loans you get at the same time on the same property
- Your monthly payments for other mortgage-related expenses (such as property taxes, homeowners' insurance, etc.)
- Your other debts
- Your monthly debt payments, including the mortgage, compared to your monthly income ("debt- to-income ratio")

In addition, we will also assess how much money you have remaining each month after paying your debts. We recommend that you also consider these same factors when determining how much you can afford to repay based on your income, expenses, and savings priorities to stay within your budget.

By signing below, I/we certify the following about the information and documentation provided with my/our request for a mortgage loan, including information about the purpose of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities.

- All information and documentation provided is true and correct to the best of my knowledge; I have not made any omissions or misrepresentations.
- I am not aware of any omissions, misstatements of fact, or misrepresentations made by persons assisting me through the loan process; and
- I understand my obligation to amend and/or supplement the information provided if any of the facts that I have provided should change prior to closing of the mortgage loan.

Borrower Name	
Borrower Signature	
Date	

Business Purpose and Occupancy Affidavit

BUSINESS PURPOSE & OCCUPANCY AFFIDAVIT (the "Affidavit)

LOAN NO: Click or tap here to enter text. (the "Loan")

BORROWER (S): Click or tap here to enter text.
Click or tap here to enter text.

PROPERTY ADDRESS: ________________________________ Click or tap here to enter text. (the "Property")

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. **I have applied for this Loan and am seeking financing for the Property for business purposes only.** I do not intend to use the proceeds of the Loan for personal, family, or household purposes.

2. **The proceeds of the loan will be used to purchase, improve, or maintain the Property, and I intend to operate the Property as one or more rental units for profit.** If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will, use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.

3. **Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding.** In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.

4. **I understand that Lender originating the Loan in reliance upon this Affidavit.** If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability, or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an Event of Default under my Loan Documents and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.

5. **I understand that the agreements and covenants contained herein shall survive the closing of the Loan.**

6. **I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non- owner-occupied real property.** I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the federal Truth-in-Lending Act (15 U.S.C. §§ 1601 *et seq.*) and its implementing Regulation Z (12C.F.R. Part 1026), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.

7. **I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.**

Initial(s):

___

------- ☐ **The Property is not and will not be occupied by me or any member of the LLC or any family member.**

Borrower(s) / Borrowing Entity Members:

________________________________ Date ____________

NOTARY PUBLIC

________________________________ Date ____________

Condo Questionnaire (Limited Review)

Date: ______ Loan No. ______ Borrower(s) Name: ______

Project Name (Exact): ______ Phase Number: ______

Project Address: ______ County: ______

City: ______ State: ______ Zip: ______

Subject Property Address/Unit #: ______

A mortgage loan is being processed on the subject property listed above.
The following information is required to complete the process. Your timely response is appreciated.

Use this form when the following three conditions apply:

1) All units, common elements/amenities including Master Association, phases, and annexation/add-ons are 100% complete.
2) 90% sold and closed.
3) HOA control has been turned over to the unit owners.

Number of total units in project: ______ Unit is: ☐ Attached ☐ Detached

	Yes	No	
1.	☐	☐	If the subject unit is a **detached** unit, is the unit 100% complete?
2.	☐	☐	Is the project a timeshare or condo hotel, or is it managed or operated as a hotel, motel, or vacation resort, even though the units are individually owned?
3.	☐	☐	Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities not owned by the HOA (i.e. owned by an outside party including developer/builder)?
4.	☐	☐	Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)
5.	☐	☐	If a unit is taken over in foreclosure or deed-in-lieu of foreclosure, is the lender liable for more than 6 months of delinquent HOA Fees?
6.	☐	☐	Is more than 25% of the total square footage of the project used for nonresidential purposes (commercial space)?
7.	☐	☐	Does the project consist of live-work units? Is it a live work project? If yes, is it mostly residential in character and are the unit owners operates of the business? ☐ Yes ☐ No
8.	☐	☐	Are multi-dwelling units allowed (owner owns more than 1-unit secured by a single deed and single mortgage)
9.	☐	☐	Is the project subject to zoning restrictions that would prohibit the project from being re-built to current density?
10.	☐	☐	Does any single entity (individual, investor group, partnership, corporation, or government housing authority) own more than the following number of units in the project? (see below) If yes, check the appropriate project size and state how many they own: ▪ Projects with 2-4 units: > 1 unit: # owned? ______ ▪ Projects with 5-20 units: > 2 units: # owned? ______ ▪ Projects with > 20 units: > 10% of the total units: # owned? ______
11.	☐	☐	Is the Homeowners' Association currently involved in any litigation other than as the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage foreclosure action against unit owners?
	☐	☐	

Condo Questionnaire (Full Review)

Date: ____________ Loan No.: ____________ Borrower(s) Name: ____________

Project Name (Exact) ____________ Phase Number: ____________

Project Address: ____________ County: ____________

City: ____________ State: ____________ Zip: ____________

Subject Property Address/Unit #: ____________

A mortgage loan is being processed on the subject property listed above.
The following information is required to complete the process. Your timely response is appreciated.

PROJECT PROFILE *(TO BE COMPLETED BY HOA, MANAGING AGENT OR DEVELOPER)*

1. Unit Sales The project consists of ____________ total units Units are: ☐ Attached ☐ Detached ☐ Both

Subject Phase	#	If Project Completed	#	If Project Incomplete	#
# of Units		# of Phases		# of Planned Phases	
# of Units Completed		# of Units		# of Planned Units	
# of Units for Sale		# of Units for Sale		# of Units for Sale	
# of Units Sold		# of Units Sold		# of Units Sold	
# of Units Rented		# of Units Rented		# of Units Rented	
# of Owner Occupied Units		# of Owner Occupied Units		# of Owner Occupied Units	
# of 2nd Homes		# of 2nd Homes		# of 2nd Homes	

Yes	No	
☐	☐	Is project (including all common areas) complete? If **No**, expected date of completion: ____________ (mm/dd/yyyy)
☐	☐	Is the project subject to further expansion? If **Yes**, # of additional units to be built: ____________
☐	☐	Has control of the HOA been turned over to the homeowners? If **Yes**, date: ____________ (mm/dd/yyyy)

2. ☐ ☐ Is project a conversion from a prior use (e.g. warehouse, rental apartments, office, etc.)

☐ ☐ If a conversion, is it a gut rehab (refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components.
If **Yes**, provide the date the legal documents were recorded: ____________ (mm/dd/yyyy)

☐ ☐ Is all rehabilitation work for the conversion complete?

☐ ☐ If **No**, and the project was legally created during the past 3 years, provide the architect's or engineer's report (or functional equivalent) that was originally obtained for the conversion
If **No**, what is incomplete? ____________

3. How are the land and units owned? ☐ Fee Simple ☐ Leasehold
If leased, the expiration of the leasehold agreement is: ____________ (mm/dd/yyyy)
If leased, provide recorded leasehold agreement

CONDOMINIUM ELIGIBILITY

	Yes	No	
4.	☐	☐	Does any single entity (individual, investor group, partnership, corporation, or government housing authority) own more than the following number of units in the Project? If **Yes**, select the appropriate project size and state how many they own: ☐ Projects with 2-4 units: > 1 unit: # owned? __________ ☐ Projects with 5-20 units: > 2 units: # owned? __________ ☐ Projects with > 20 units: > 10% of the total units: # owned? __________
5.	☐	☐	Are there any adverse environmental factors affecting the project as a whole or as individual unit?
6.	☐	☐	Can units be rented on a daily basis?
7.	☐	☐	Is the project a timeshare or condo hotel, or is it managed or operated as a hotel, motel, or vacation resort, even though the units are individually owned? Check boxes below if any of the project characteristics indicate the project is operating as a hotel or motel: ☐ Central telephone system ☐ Room service is offered ☐ Units that do not contain full-sized kitchen appliances ☐ Daily cleaning service is offered ☐ Advertising of rental rates ☐ Registration service ☐ Restrictions on interior decorating ☐ Offers franchise agreements ☐ Central key systems ☐ Located in a resort area (specific resort area) ☐ Project includes the work hotel or motel in its name ☐ Units are typically sold unfurnished ☐ Units can be leased on a daily or weekly basis ☐ Owner-occupancy density – the project may have few or even no owner-occupants ☐ Project is a conversion of a hotel or motel or other similar transient properties ☐ Units that are less than 400 square feet ☐ Interior doors that adjoin other units
8.	☐	☐	Is project subject to time-share ownership or mandatory rental pools or is an individual property owner's ability to utilize the property curtailed in any way?
9.	☐	☐	Is the project owned or operated as a continuing care facility?
10.	☐	☐	Does the project contain manufactured homes?
11.	☐	☐	Is the project an investment security?
12.	☐	☐	Does the project consist of property that is not real estate (e.g. houseboat, boat slip, etc.)?
13.	☐	☐	Do the CCRs or legal documents split ownership or curtail the borrower's ability to utilize the property?
14.	☐	☐	Does the project now contain, or does the HOA's legal documents allow "multi-dwelling units?" (Defined as a project that allows an owner to hold title to a single, legally established unit that has been subdivided into additional residential dwellings within that single legal unit.)
15.	☐	☐	Is the project subject to zoning restrictions that would prohibit the project from being re-built to current density?

16. ☐ ☐ Is the project a common interest apartment or a Co-op? (Defined as a project or building governed by several owners as tenants-in-common, or by an HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right to exclusive occupancy of a specific apartment within that building.)

17. ☐ ☐ Is more than 25% of the total square footage of the project or the building used for non-residential purposes (commercial space)?

18. ☐ ☐ Does the project consist of live-work units?

19. ☐ ☐ Is it a live work project?

If **Yes**, is it mostly residential in character and are the unit owners operates of the business? ☐ Yes ☐ No

20. ☐ ☐ Is the HOA currently involved in any litigation other than as the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage foreclosure action against unit owners?

- If **Yes**, provide the following information: The HOA is the : ☐ Plaintiff ☐ Defendant
- If Plaintiff, is the litigation related to construction defects? ☐ Yes ☐ No
- If No, what is the lawsuit about? ______________________________
- If Defendant, has the HOA's insurance company agreed to provide the defense?
- Is the amount claimed covered by the HOA's insurance?
- What is the dollar amount of damages claimed?

The contact information for the attorney or law firm representing the HOA is:
Name: ______________________________
Phone: ______________________________
Email: ______________________________

21. ☐ ☐ Is the HOA subject to a Master or Umbrella association? If yes: Name: ______________________________

22. ☐ ☐ Are any units in the project subject to resale restrictions (e.g. age, income, or rent stabilization)?
If **Yes**, identify the restriction(s): ______________________________
If **Yes**, list the unit numbers: ______________________________
If **Yes**, provide a copy of the restrictive agreement (ie. Affordable Housing or Rent Stabilization Agreement, etc.)

23. ☐ ☐ Are there recreational facilities owned by the HOA?

FINANCIAL

Yes **No**

24. ☐ ☐ Are there any units 60 days or more delinquent? If **Yes**, provide the number of units: ____________

25. ☐ ☐ Are there any pending special assessments? If **Yes**, please explain: ______________________________

26. ☐ ☐ Does the HOA have a reserve fund separate from the operating account?

If **Yes**, is it adequate to prevent deferred maintenance? Current amount in fund: $ ______________

Total income budgeted for the year: $ ____________ Total reserves budgeted for the year: $ ______________

27. ☐ ☐ Is the **lender** liable for delinquent common charges? If **Yes**, how many months? __________

28. ☐ ☐ Does the project have any non-incidental business operation owned or operated by the HOA? If yes, what percentage of the projects budgeted income comes from non-incidental business operations? _________%

29. ☐ ☐ Does the HOA own or operate any non-incidental business operations (e.g. a restaurant, health club, spa, golf course, tennis club, etc.)?
If yes, describe the type of business: ______________________________

30. ☐ ☐ Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities **not** owned by the HOA (i.e. owned by an outside party including developer/builder)?

31. ☐ ☐ Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)

32. ☐ ☐ Does the HOA and its management company adhere to one or more of the following financial safeguards? If **Yes**, check all that apply:
    - ☐ Separate bank accounts are maintained for the Operating Account and Reserve Account
    - ☐ Monthly bank statements are sent directly to the HOA
    - ☐ At least two board members are required to sign checks written on the Reserve Account
    - ☐ If a management company handles the HOA's finances, does it maintain separate records and bank accounts for each HOA that uses its services?
    - ☐ If a management company handles the HOA's finances, does it have authority to draw checks on, or transfer funds from, the HOA's Reserve Account?

INSURANCE

33. Who is named insured on HOA's master insurance policy? ____

Yes **No**

34. ☐ ☐ Are common elements/limited common elements insured to 100% replacement cost?
    Coverage: $ ________________ Deductible: $ __________________ Expiration Date: ____________________
35. ☐ ☐ Are units or common improvements located in a flood zone?
36. ☐ ☐ If yes to question 35, is flood insurance in force? If no, skip to question 38.
37. ☐ ☐ Does the flood insurance cover 100% replacement **OR** Is the coverage the maximum available per federal flood program?
38. ☐ ☐ Is the HOA insured for general liability? If **Yes**, amount of coverage $ ________________
39. ☐ ☐ Is the HOA insured for Fidelity/Crime insurance? If **Yes**, amount $ ________________
40. ☐ ☐ Is the HOA additionally insuring the property manager under their Fidelity/Crime insurance ? Y/N
41. Minimum number of days required for written notification to be given to HOA or insurance trustee before any substantial changes to project coverage can be made or before project coverage can be cancelled: __________ days
42. ☐ ☐ Does the property insurance contain or include a co-insurance clause.
    If **Yes**, percentage of co-insurance is __________%
43. ☐ ☐ Is project professionally managed? If yes: Managing Agent: ____________________________________
    Phone: ______________________________ Contact: ______________________________
    Insurance Agent: ___________________________ Phone: ______________________________

CONTACT AND SIGNATURE *(TO BE COMPLETED BY HOA, MANAGING AGENT OR DEVELOPER)*

Date: ____________________

Contact Name/Title: ____

HOA/Company Name: ____ **HOA Tax ID:** ______________

Phone Number: ____________________________________ **Fax Number:** _________________________

By signing below I certify that, to the best of my knowledge, the information provided is true and correct. The undersigned further represents they are authorized by the Homeowners' Association Board of Directors and/or the Managing Agent to provide this information on behalf of the Association.

____

Signature

PHASING ADDENDUM FOR NEW CONSTRUCTION PROJECTS & NEW CONVERSIONS

Project Name: ______________________________

Project Address: ______________________________

City: ____________________ State: ________ Zip: ________

	# of Units					
Phase #	In the Phase	Conveyed	Under Contract	Owner Occupied	Non-Owner Occupied	Phase Complete
#1						
#2						
#3						
#4						
#5						
#6						
#7						
#8						
#9						
#10						
#11						
#12						
#13						
#14						
#15						
#16						
#17						
#18						
#19						
#20						
TOTALS						

By signing below I certify that, to the best of my knowledge, the information provided is true and correct. The undersigned further represents they are authorized by the Homeowners' Association Board of Directors and/or the Managing Agent to provide this information on behalf of the Association.

Contact Name: ______________________________ Date: ____________

Signature: ______________________________ Title: ____________

Personal Guaranty Agreement

Loan Number: (Loan number)

PERSONAL GUARANTY AGREEMENT

THIS GUARANTY ("Guaranty") is effective as of **(note date) and** dated the same date as the Note and Security Instrument (the "Loan Documents") securing the property the property located at **(property address)** (the "Subject Property") by **(Borrower's Names)** (the "Guarantor", collectively if more than one), for the benefit of (Lender) (the "Lender").

IN CONSIDERATION FOR Lender agreeing to lend the sum of $ **(loan amount)** to **(LLC name)** (the "Borrower"), the Guarantor, does hereby absolutely, unconditionally and irrevocably guarantee to Lender, its successor or assignee, as their interests may appear, jointly and severally with other guarantors, each of the following:

- **(a)** Guarantor guarantees the full and prompt payment when due, whether at the Maturity Date or earlier, by reason of acceleration or otherwise,
- **(b)** Guarantor guarantees all costs and expenses, including reasonable Attorneys' Fees and Costs incurred by Lender in enforcing its rights under this Guaranty,
- **(c)** Guarantor guarantees the full and prompt payment and performance of, and compliance with, all ofBorrower's obligations under the Loan Documents when due, and
- **(d)** Guarantor has a direct or indirect ownership or other financial interest in Borrower and/or will otherwise derive a material benefit from the making of the Loan.

Defined Terms. The terms "Indebtedness," "Loan Documents," and "Property Jurisdiction," and other capitalized terms used but not defined in this Guaranty, will have the meanings assigned to them in the Loan Agreement.

NOW THEREFORE Guarantor acknowledges and agrees:

The liability of the Guarantor shall exist and continue to exist whether or not the signature or name of the undersigned appears on any evidence of indebtedness from the Borrower to the Lender.

The undersigned Guarantor hereby waives notice of the acceptance of this Guaranty and of any demand for payment hereunder, presentment, demand, protest, dishonor, or default or notice thereof with respect to the above transaction.

The undersigned Guarantor agrees to be liable and pay for any deficiency if the note holder forecloses the mortgage securing the note pursuant to the terms of the Loan Documents and the proceeds received under a foreclosure proceeding, after deduction for expenses, are not sufficient to satisfy the indebtedness for the Borrower.

No extension of time or forbearance on the part of Lender, its successor or assignee, with respect to the mortgage or modification of the terms and provisions of the mortgage shall operate to release any of the Guarantor's obligations hereunder nor shall any delay on the part of the Lender, its successor or assignee, in exercising any of its options, powers or rights under the Loan Documents, or hereunder, or a partial or single exercise thereof constitute a waiver of any other rights hereunder.

This Guaranty shall be construed as an absolute, continuing and unlimited guaranty of payment without regard to the regularity, validity, or enforceability of any liability of any obligation of the Borrower hereby guaranteed; and Lender shall not be required to proceed first against the Borrower or any other person, firm or corporation or any collateral security held of Lender, its successor or assignee, before resorting to the Guarantor for payment. All remedies of Lender to be deemed cumulative and the availing of one remedy or another not to be deemed an election of remedy.

IN WITNESS WHEREOF, Guarantor has signed and delivered this Guaranty as of the date represented below.

Dated: ____________________

____
Guarantor Signature

____
Guarantor Printed Name

State of County of

____

On the ______________________ (date) before me, the undersigned, a Notary Public in and for said State, personally appeared ____________________(Guarantor), personally known to me or proved to me on the basis of satisfactory evidence to be the Individual whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her capacity, and that by his/her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

____
Notary Public

Seal:

Exhibit A
Prepayment Penalty Reference Guide

State Specific Acquisition Guidance

FundLoans will not fund loans with prepayment penalties in the following states:

- Alaska, Kansas, Minnesota, New Mexico, North Dakota and
- Maryland when a Note is contracted under the Usury Laws (either explicitly or if Choice of Law is not stated)

All other loans with a prepayment penalty must be in compliance with applicable state law. The following states include specific limitations or requirements:

- Illinois permitted to legal entities. Prohibited to individual borrowers.
- Maryland – Note must specifically include Choice of Law - Title 12, Subtitle 10 Credit Grantor provisions
  - **THIS LOAN IS MADE PURSUANT TO TITLE 12, SUBTITLE 10 OF THE MARYLAND COMMERCIAL LAW ARTICLE FOR CREDIT GRANTOR CLOSED-END CREDIT**
- New Jersey permitted to legal entities. Prohibited to individual borrowers.
- Ohio permitted on loan amounts >=$112,957 (for 2025).
  - Loan amounts <$112,957 permitted only on 3-4 residential units. Number of units will be validated prior to funding.
- Oregon – requires state specific notice to borrower verbiage to be disclosed on the loan agreement (i.e. Note, Note Addendum or prepayment penalty rider) The disclaimer must be in at least 10-point font and either bold or underlined (see example below)
  - **NOTICE TO THE BORROWER: Do not sign this loan agreement before you read it. This loan agreement provides for the payment of a penalty if you wish to repay the loan prior to the date provided for repayment in the loan agreement.**
- Pennsylvania permitted on loan amounts >$319,777 (for 2025).
  - Loan amounts =<$319,777 permitted only on 3-4 residential units. Number of units will be validated prior to funding.
- Washington permitted on fixed rate loans. Prohibited on ARM loans.

Allowable Types of Prepayment Structure

FundLoans will accept the following 1-to-5 year prepayment types 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 or Rider.

- **6 months interest** on amount of prepayment above 20% of the original loan amount in any 12-month period.

  State Specific Restrictions to Structure:

  - Michigan – allows a Flat Prepay Structure for 3 years at 1/1/1 % of the amount of the amount prepaid.
  - Mississippi – allows up to a maximum 5-year declining (step down) prepayment penalty structure that cannot exceed 5%/4%/3%/2%/1%.
  - Ohio- allows a flat Prepayment Penalty up to 5 years and equal to 1% or less of the original principal amount (see loan amount rules above).
  - Rhode Island – allows a flat 1-year Prepayment Penalty equal to 2% of the balance due.

10.0 Version History

Version 1.0 Effective 02-01-2025