FUNDLOANS

MONTAGE ELITE
FULL DOC GUIDELINES

Effective 11-11-2024 | V1.1

Table of Contents

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 by FundLoans. Brokers 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 guidelines.

These Credit Guidelines provide detailed requirements for funding 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. FundLoans has sole discretion to fund any loans.

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

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 should have their own established fraud and identity procedures they follow for every loan to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of 4506- C, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be funded by FundLoans. Any determination of Broker involvement and/or knowledge of misrepresentation will result in the dissolution of any FundLoans-Broker relationship. The appropriate agencies will be notified.

Additional Requirements:

- Deviations from the underwriting guidelines based on compensating factors may require an exception and need to be documented in the loan file.
- Negative Amortization Feature or Equity Participations 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 or Guarantor was legally entitled to reside (or legally own for Foreign Nationals) in the United States.
- Occupancy - the Broker 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.
- 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.

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.

FundLoans is required to make a reasonable, good-faith determination before a loan is closed that the borrower has a reasonable ability to repay a loan.

NOTE: Example of Ability to Repay Attestation Disclosure is located in section 8.1. UW may attest to the borrower meeting the ATR rules or borrower may sign an attestation.

2.0 Borrower Eligibility

2.1 Eligible Borrowers

All borrowers on loans purchased 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.

  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.

SEE FOLLOWING PAGES FOR VISA AND EAD ELIGIBILITY MATRICES

NOTE: Power of Attorney's (POA's) are eligible EXCEPT for cash out loan program, or when closing/vesting in the name of an Entity.

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 Occupation	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	
Nonimmigrant 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	
Certain borrowers may hold an EAD which does not require a corresponding Visa type. 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

2.2 Ineligible Borrowers

- Foreign Nationals, and all Foreign Nationals as defined by the U.S. Citizenship and Immigration Services (USCIS)
- All Persons with Diplomatic Immunity, as defined by the U.S. Citizenship and Immigration Services (USCIS)
- Persons from OFAC sanctioned countries: https://sanctionssearch.ofac.treas.gov/
- Originator's Employee Loans
- Trusts of any kind cannot be the borrower but may hold title
- ITIN Borrowers residing in the U.S.
- 501(c)(3) Organizations
- Trusts or business entities whose members include other LLCs, Corporations, Partnerships, or Trusts
- Trusts or business entities where a Power of Attorney is used.
- Persons sanctioned by OFAC
- Businesses or Persons whose income derives from cannabis industry

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

2.3 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 or second home; and (iii) had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property.
Non-borrowing Occupant	Any individual residing in the security property who is not considered during the loan qualifying process. A Non-Borrowing Occupant on title will be required to execute applicable documents to create a valid lien.
Non-occupant Co-borrower ("Co-signer")	An individual who: (i) May or may not have any ownership interest in the property as indicated on title. (ii) Signs the Mortgage or Deed of Trust Note. (iii) Has joint liability for the Note along with the Primary Borrower. (iv) Does not have a vested interest in the property sales transaction, i.e. is not a seller of the property, is not an existing tenant, is not the builder or the real estate broker. (Will NOT require occupant ratios) Note (a): A family relationship is not required provided the transaction is considered an arm's length transaction. Note (b): The continuity of obligation requirement on a refinance transaction is considered met if one of the current owners is on the loan application.

2.4 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. Parents or legal guardians wanting to provide housing for their handicapped or disabled adult child OR children wanting to provide housing for their parents is not considered to be a primary residence transaction. Otherwise, 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. ● If a loan is intended to be and closes as a Business Purpose, the file must contain a signed Business Purpose and Occupancy Affidavit.

2.5 Eligible Transactions

2.5.1 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 are eligible - must be primary residence or second home only.
- Non-Arm's Length Transaction - A non-Arm's Length transaction is a transaction between family members, co-workers, friends, or anyone associated with the transaction such as the listing agent, mortgage lender or broker. The following is required if the purchase of the subject property is a non- arm's length transaction:

- Primary Residence: The property must be the borrower's primary residence.
- Gift of Equity is eligible: A gift of equity occurs when equity in a property is gifted from the owner to the borrower when the borrower and owner are related.
- Examples of Non-Arm's Length Transactions:
  - Relatives - Defined by blood, marriage, adoption, or legal guardianship. Transactions between parents, siblings, grandparents, aunts, uncles, cousins, stepchildren, or spouses are 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 only are allowed for down payment and cash to close only.
- HELOCs and 2nd liens not permitted.

2.5.2 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). HELOC withdrawal activity must be documented with a transaction history from the HELOC account.

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of 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 3 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

2.5.3 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.

- 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 three months prior to the Note Date. For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value.
- 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 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.

2.5.4 CEMA Loans

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

2.5.5 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. Loan must be fully amortized.

2.6 Ineligible Transactions

- Assumable loans
- Construction to permanent transactions
- Loans with Temporary Buydowns
- Builder Bailout Loans
- Conversion Loans

- Lease Options/Rent-to-Own
- Land Contracts
- Non-Arm's Length Transactions
- 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 can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan
- Payoff of a loan with equity sharing features
- Loans with a negative amortization feature
- Simple interest loans

3.0 Credit

3.1 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.

3.1.1 General Requirements

The Originator is required to document that the borrower does not qualify for a GSE loan or has chosen a non-GSE loan program. The originator is also required to include a copy of the final loan 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 of the date the borrower(s) sign the Note and Mortgage.
- Debt Monitoring - An Undisclosed Debt Notification (UDN) is required within 10 days of closing date. Verification of monitoring document needs to clearly show date issued, created or printed within 10 days of closing date showing actively monitoring. FundLoans will also accept a credit refresh/gap report within a 10 day window.
- 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.

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 Originator requested a three in-file merged report.

3.1.2 Credit Scores

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

A minimum of 2 credit scores is required to be provided for each borrower and is used to determine the qualifying credit score for loan approval. 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 score is the Representative Credit Score of the Primary Wage Earner. If borrowers are 50/50 owners of a business and income is equal, the higher Representative Credit score is used for qualifying.

3.1.3 Tradeline Requirements

All borrowers should have an established credit history that is partially based on tradeline history. Only the Primary Wage Earner is required to meet the minimum tradeline requirements below and if the Primary Wage Earner has 3 credit scores reporting on credit, then the minimum credit tradeline requirements are considered met.

Required Tradelines	Active Reporting Period
3 Tradelines	≥ 12 months
OR	
2 Tradelines	≥ 24 months

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:

- Eight or more tradelines reported,
- At least one tradeline active in the last 12 months, defined as last activity within 12 months of the credit report date, and

- At least one of these tradelines must be a mortgage tradeline (can also be counted as the active tradeline).

3.1.4 Credit Reporting Data Included in DTI Ratios

- Installment Debt: All installment loans (monthly obligations with fixed payments and terms) must be included in the borrower's DTI.
    - Excluded from DTI: Payments of 10 months or less. If the payment exceeds 5% of the borrower's qualifying income, then the underwriter must include 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 is sufficient documented reserves (in excess of the required minimum reserves 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 creditor is required. Funds used for payof f 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 borrower 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 another party was obligated to buy-out the 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)

3.1.5 Credit Reporting Data 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 the borrower's credit report and the debt is less than 6 months old, 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 canceled checks or bank statements showing the debt as paid from the business account, or tax returns that reflect the debt payment as a business expense deduction.

3.1.6 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 Apex Elite Alt Doc 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. If the credit report does not reflect pay history, following are acceptable methods of verification:

<u>For mortgage payments (any of the following)</u>

- VOM obtained from the Mortgage Servicer,
- Electronic pay history printout obtained directly from the Mortgage Servicer showing timely payments,
- 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 <u>OR</u> cancelled checks front and back along with the most recent mortgage statement.

<u>For rental payments</u>

- If was/is renting from a private party, obtain either a fully executed VOR <u>OR</u> 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 <u>OR</u> bank statements showing account ownership and payments debited by the landlord).
- If was/is renting from a management company, obtain a fully executed VOR. Otherwise, obtain the most recent lease along with a payment history ledger from the management company, canceled checks front and back or bank statements showing account ownership and payments debited by management company.

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

3.1.7 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 rented/property owned in the last 12 months, a fully executed VOR/VOM must be obtained for those month's available 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 restrictions mentioned in this Guide). To be eligible, the non-borrowing spouse must provide a rent-free letter, and evidence of an acceptable 12-month housing payment history (mortgage or rent payment) 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.

Borrowers who do not have a complete 12- month housing history are subject to all of the following restrictions:

- Primary residence only
- Greater of 6 months reserves or months of reserves required at higher loan amounts
- 10% minimum borrower contribution
- Max 45% DTI

3.1.8 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 he or she has made at least 50% of the monthly 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

3.1.9 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 the loan closing.
- Consumer Credit Counseling Services: 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.

3.1.10 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 (Except for Elite + Program which requires 48 months). Examples of mortgage loan modifications are:
    - Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
    - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
    - Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage.
    - Conversion of any portion of the original mortgage debt from secured to unsecured

3.1.11 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 for the Full Doc program.

4.0 Capacity

4.1 Income Documentation

4.1.1 Full Documentation

FundLoans will accept Full Documentation (Full Doc) for the following Wage Earner or Self-Employment types. All Wage Earner/Self-Employed loans require an executed 4506-C and income will be calculated in accordance with the most recent FNMA Guides.

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

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

4.1.2 Documentation Requirements

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

Wage Earner/Self Employed				
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 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 min 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 obtained the information.	
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 income)	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 income)	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.
Corporate Tax Returns (if applicable)	N/A	N/A	Most recent 2 years Form 1120 and YTD P&L	Most recent 1 year Form 1120 and YTD P&L

NOTE: if tax returns are on extension, then the borrower will need to supply their most recent filed tax return and a signed P&L thru the most recent quarter (if applicable) and a P/L from previous year.

4.2 Determining Income

4.2.1 Determining Monthly Salary for Wage Earners

Wage Period	Pay Amount	Function	Annual True-up	Function	Monthly Income
Weekly	Weekly gross pay	x	52 weeks		12 months
Bi-Weekly	Bi-Weekly gross pay	x	26 pay periods		12 months
Twice Monthly	Twice monthly gross pay	x	24 pay periods		12 months
Monthly (a)(b)	Monthly gross pay	N/A	N/A	N/A	N/A
Hourly/Variable hourly	Hourly gross pay rate x Avg # of hours per week	x	52 weeks		12 months

(a) Position/job must be verified as a 12-month position
(b) Income must be consistent with reported annual income

These guidelines are to assist with the evaluation and determination of the borrower's income and should be consistently applied. The applicant's monthly income will be determined by documentation provided. Calculated figures will be used to determine the borrower's DTI.

4.2.2 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 a case-by-case 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 at different jobs over a period, that is considered acceptable.
  - A Written Verification of Employment (WVOE) is required that states that there is a reasonable expectation of the borrower returning the next season.
  - Unemployment compensation for time-off should have 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 – All properties except departing residence**
  - <u>Required Documentation</u>: 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 transactions of an investment property, copies of the lease agreement(s) transferred to the borrower are required. Current lease amount would be used for rental income calculation. If the 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 leases, Airbnb, VRBO, Homestay or other vacation rentals (i.e., short-term rentals) are allowed with a two-year history of receipt as reported on Schedule E of the borrower's personal tax returns. Evidence that the property is currently being offered for rent in the same manner is required. 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,
  - 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.
- 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.

- **Departing Residence (rental income)**
  - 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 receipt of the security deposit **and** proof of the first month's rent deposited to borrower's account is required 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**
  - Refer to FNMA guidelines.
- **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 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.

    <u>NOTE:</u> 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.

4.2.3 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 that the borrower has the capacity to repay the loan and meets ATR requirements.

4.2.4 Determining Income for Self-employed Borrowers

- Business Verification
  - A Third-Party Verification of the existence of the borrower's business is required within 20 business days of the Note date.
  - Verification must be from a third-party, such as a CPA, Enrolled Agent, CTEC or Chartered Tax Adviser, 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 for 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

4.2.5 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:

- Sole Proprietorship:

  Business income, expenses and taxable profits are reported on Schedule C of the Individual Tax Return. Required documentation for a Sole Proprietorship include:
  - Federal Individual Income Tax Return Form 1040 for the most recent 2 years including Schedule C. The tax returns must be signed by the borrower(s) with all applicable schedules.
  - YTD P&L and Balance Sheet prepared by borrower or CPA.
- A Partnership (General or Limited):

  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.
  - Corporate Resolution
  - YTD P&L and Balance Sheet prepared by a CPA or borrower.
- Limited Liability Company (LLC):

  An LLC is a business structure that blends the tax efficiencies of a partnership and the limited liability of a corporation. LLCs report profit 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.
- Corporate Resolution
- YTD P&L and Balance Sheet prepared by a CPA or borrower.

- S Corporation:

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

  The ordinary income from an S Corporation's business is reported on IRS Form 1120S with each shareholder's share of income reported on Form 1120S's Schedule K-1. Cash distributions from an S- Corp to a borrower will be reviewed and considered when evaluating the cash flow of the S-Corp. S-Corp documentation required:
  - Federal Individual Income Tax Return Form 1040 for the most recent 2-years. 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.
  - Corporate Resolutions.
  - IRS Form 1120S Income Tax Return for the S Corp's most recent two years (if the ownership is greater than or equal to 25%.)
  - YTD P&L and Balance Sheet prepared by a CPA or borrower.

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

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

4.3 Debt to Income (DTI)

4.3.1 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' Credit Matrix for maximum allowable DTI.

4.3.2 Residual Income

In accordance with ATR standards, a monthly residual income calculation must be completed. The formula for the 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 required on all loan products.

4.3.3 Borrower ATR Certification

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

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

NOTE: An underwriters detailed attestation regarding borrowers ability to repay is acceptable in lieu of signed borrower disclosure

(See Appendix Section 7 for a sample Borrower Attestation verbiage)

4.4 Subordinate Financing

FundLoans allows subordinate financing provided the following conditions are met:

- The subordinate financing doesn't have a negative amortization or an interest only feature.
- Subordinates with prepayment penalties are not allowed.

- All subordinate financing must be from a Financial Institution (i.e. no private party).
- Subordinate financing payment must be included in the DTI calculation.
- Max LTV/CLTV cannot exceed Max LTV in Credit Matrix.

Required Documentation for subordinate financing:

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

4.5 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 loans are qualified using the greater of the Note rate or the fully indexed rate using the fully amortizing payment over the fully amortized term of the loan.

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

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

ADJUSTABLE RATE CRITERIA SOFR	
	Program/Type
MARGIN	*see 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

30 Day average SOFR index as published by the New York Federal Reserve

4.6 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 is permitted 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 including ROTH (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 is allowed. The borrower(s) on the loan must have 50% ownership of the business and must be the owner(s) of the business account. Access letters from the remaining owners of the business must be obtained as well. A letter from a CPA, Third-Party Tax Preparer (excluding PTIN tax preparers, PTIN preparers that work for a 3rd party firm may be permitted by exception only) or the 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 is provided, FundLoans will accept a underwriter's cash flow analysis of 12 months of business bank statements.
- 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 Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
- Cryptocurrency (e.g. Bitcoin, Ethereum) is an eligible source of funds for down payment, closing costs and reserves. For down payment and closing costs, the assets must be liquidated and deposited into an established 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. Cryptocurrency is not an eligible liquid asset for asset utilization/depletion.
- 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.

4.6.1 Verification of Assets

The underwriter may use any of the following types of documentation for verification:

- Verification of Deposit (VOD) - The information must be requested directly from the depository institution. The completed, signed, and dated document must be sent directly from the depository institution and dated within 30 days of the application date.

- Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent 30 days. A summary statement will not be accepted.
    - The statements may be computer generated forms and must include or state the following:
        - The borrower as the account holder
        - The account number(s)
        - The timeframe the statement(s) cover
        - All deposits and withdrawal transactions
        - The previous close balance, the current balance, and the ending account balance.
        - Retirement account statements must be from the most recent period and show the borrower's vested amount and terms.
- Large cash deposits are not an acceptable asset source

4.6.2 Other Requirements

- Assets must be seasoned for 30 days and any large deposits as determined by the underwriter must be sourced .
- Gif t 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.
- Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment.

4.6.3 Reserves

Reserve Requirements	
Loan Amount	****Months Required**
< $1,000,000	3 months
$1,000,000 - $1,500,000	6 months
>$1,500,000	9 months
R/T Refinances with ≤ 65% LTV	No minimum reserves required

**Reserves are not stacked. For IO loans reserves are based on the IO payment amount.

4.6.4 Seller Concessions

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

Seller concessions include:

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

5.0 Collateral

5.1 Eligible Property Types

- Single Family Dwellings
- Single Family Dwellings with One Accessory Unit (ADU)
- 2-4 Family Dwellings
- Planned Unit Development (PUDs)
- Condominiums
- Co-Ops
- Modular homes
- Leaseholds (in area where leaseholds are common)

5.2 Ineligible Property Types

Assisted Living	Mixed Use
Agricultural properties	Properties with less than 500 square feet living space
Barndominiums	Properties Under Construction

Boarding houses	Rural properties greater than 20 acres
C5 or C6 property condition grades	Tenancy in Common properties
Commercial properties	Time-shares
Geodesic domes	Unique Properties
Log Homes	Working Farms
Manufactured housing or Manufactured Homes	Vacant lots
Work escrows are not allowed	Mortgage Loans financing builder inventory

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.

5.3 Declining Markets

The appraiser determines if a property is located in a declining market. Within the Neighborhood section of 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.

5.4 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.
- Assignments of the contract to another buyer are not allowed.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z

revisions can be found at https://www.consumerfinance.gov/compliance/compliance-resources/mortgage- resources/higher-priced-mortgage-loans-appraisal-rule/. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if seller acquired the property in the past 90 days
- Greater than 20% increase in sales price if seller acquired the property in the past 91- 180 days

5.5 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 or Originator on company letterhead stating they are transferring the appraisal to the FundLoans. The letter must transfer the ownership and rights for the specific transaction.
- The Lender or Originator 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 Originator's responsibility to work with the previous lender to obtain them and FundLoans will not review.

5.6 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 Field Specific Standardization Requirements. Additional requirements:

- Properties must be appraised within the 12 months that precede the date of the note. When the appraisal report is more than 120 days old, the appraiser must perform a recertification of value via FNMA 1004D or FHLMC Form 442 which includes inspection of the exterior of the property and review of current market data to determine whether the property has declined in values since the date of the original appraisal. Additionally, the investor reserves the right to require additional appraiser re- evaluation reports depending on age of documentation at the time of full loan delivery/purchase.
- A Uniform Residential Appraisal Report (URAR) with color photos is required.
- FNMA Form 1004 / FHLMC Form 70 is used for one-unit properties including individual units in Planned Unit Development (PUD) projects and Site Condos. FNMA Form 1073 is used for

condominiums. And FNMA Form 1025 is used for 2-4 unit properties.

5.7 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

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)
- FundLoans will not accept an appraisal from an appraiser who works for the lender, originator, 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 in independent third-party.

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

Appraisal Review Requirements

A minimum of one full appraisal is required for loan amounts ≤ $2,000,000. For any loan amount over $2,000,000, 2 full appraisals are required. The lesser of the two appraised values is used for LTV calculation purposes. When only one full appraisal is required, a secondary appraisal review is also required as follows:

- A 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
  - ARA from Computershare
  - CCA from Collateral Analytics
  - VRR from Homegenius (previously Red Bell)
  - Valreview from Veros Software

- If a desk review from the above vendors is less than 90% of the appraised value, then the LTV will be calculated using the lower desk review value.
- If a desk review cannot be obtained, then a second appraisal is required.
- In all cases where a second appraisal is required, an acceptable CU/LCA Score, or desk review is not required.
- All mortgage transactions located in a federally declared disaster zone, whether it is a purchase or a refinance, require a Disaster Inspection Report confirming no damage to the subject and no adverse impact to marketability. The practice of obtaining a Disaster Inspection Report should continue for a minimum of 90 days from the date of the disaster and display a completion date that doesn't exceed 15 days prior to the loan closing.
  - On all Purchase Money Transactions, closing instructions should indicate that no credits for property conditions are permitted and there should be no seller concessions due to damage to the property that was caused by the declared federal disaster.

5.8 Project Review

UW Attestation and/or documentation clearly stating whether the property is a warrantable or non-warrantable condo must be delivered with the file.

If an approved Fannie Mae's Condo Project Manager (CPM) report is provided, a lender HOA Questionnaire is not required.

5.8.1 Project Review Warrantable

FNMA eligible warrantable projects are permitted. 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 project whichever is lower.

5.8.2 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	• 50% of the total units in the project or subject's phase must be sold or under contract. • Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete. • Project may be subject to additional phasing • HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only • Maximum LTV/CLTV Purchase: 75% • Maximum LTV/CLTV R/T and Cash-Out: 65% • Minimum Loan Balance: $150,000 • Maximum Loan Amount: $1.5 million • 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%. Higher percentages may be considered under the Investment Property Program when an established history of a high percentage of rental units in the condo project can be demonstrated.

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. Budget/Replacement Reserve Study Requirements allowed subject to the following requirements: <3% allocation to replacement reserves; provide condo questionnaire completed by HOA, copy of annual budget and a reserve study completed within the previous 5 years by one of the following professionals: CPA, General Contractor, or Property Manager with 3 years experience
LITIGATION	Pending litigation may be accepted on a case-by-case 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.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 50%.

5.9 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 our 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 tile report must contain the entire legal description and may be identified by lot and block or metes and bounds description.
- The original title commitment should be countersigned by an authorized person from the title company.
- 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' subordination guides.
- Liens and Judgments - Any liens (i.e., federal tax liens, mechanic's liens) 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 panel 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 property. However, if the title company will not provide insurance, then the encroachment must be reviewed by our 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 subsequent to 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 to its current density and use if destroyed.
- Oil and Gas Leases and Mineral Rights - 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 a lease does provide for surface rights, the 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.

5.9.1 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-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:
  - Location of improvements on the subject property
  - Location of easements on the subject property
  - 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 underwriter for easements, encroachments, flood zone impacts and possible boundary violations.

5.9.2 Title Vesting

Fee Simple with Title Vesting as:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Vesting in an Entity – 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.

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).

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.

NOTE: Official documentation issued by a CPA, a Third-Party Tax Preparer (excluding PTIN tax preparers, PTIN preparers that work for a 3rd party firm may be permitted by exception only), 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.

5.9.3 Hazard Insurance Requirements/Cond (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.
Effective date showing on or before funding is required with 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 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 closing date

- Premium amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by the agent

Disaster Policies:

FundLoans will allow 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.

Deductibles:

- Family Residences. The maximum allowable deductible, to include any separate wind-loss or other separate deductibles that apply to a specific property element, is 5% of the face amount of the policy.
- Condos, 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 must comply with state and federal laws. It should be equal to the lesser of:

- 100% of the insurable value of improvements value, 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.

5.9.4 Miscellaneous

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.

OFAC and Watchlist Search

Provide documentation to confirm all parties to the transaction such as borrowers, entities holding title, sellers, realtors, realtor brokerages, closing attorney/title agent, title company, lender/originator, loan officer, appraiser and appraisal company were successfully checked and not included on these lists. For refinances, the borrowers, entities holding title, closing attorney/title agent, title company, lender/originator, loan officer, appraiser and appraisal company should also be included in the search.

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.

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.

Property Taxes

For new construction or full renovation property, one of the following is required 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 county tax estimator using purchase price OR appraisal cost new estimate (if shown on appraisal), OR
- Calculation worksheet using mileage rate + purchase price OR appraisal cost new estimate (if shown on appraisal) needs to be provided.

FundLoans will not accept the previous year’s tax bill that does not show improvements (i.e. only land is assessed).

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.

Maximum Financed Properties

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

6.0 Exceptions

Exceptions to FundLoans Guidelines can be requested by submitting an FundLoans Exception Request form to FundLoans. The underwriter should review the loan file to ensure prudent underwriting was exercised. Exception consideration is generally based on compensating factors. As such, all compensating factors should be documented on the exception request 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.

7.0 Appendix

- Example Borrower Attestation
- Example Condo Questionnaire (Limited Review)
- Example Condo Questionnaire (Full Review)
- Investor Prepayment Penalty Reference Guide

7.1 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. In order 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	

7.2 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?
	☐	☐	

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

7.3 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.

Yes	No	
☐	☐	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: ____________

7.4 Investor 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
- New Jersey permitted to legal entities. Prohibited to individual borrowers.
- Ohio permitted on loan amounts >=$110,223 (for 2024). Prohibited on loan amounts <$110,223
- Oregon – requires state specific notice to borrower verbiage to be disclosed on the loan agreement (i.e. Note, Note Addendum or prepayment penalty rider)
- Pennsylvania permitted on loan amounts >$312,159 (for 2024).
  - Loan amounts =<$312,159 permitted only on 3-4 residential units. Number of units will be validated prior to purchase.
- 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 Rider.

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