FUNDLOANS

MONTAGE PRIME

FULL DOCUMENTATION GUIDELINES

Effective 04-09-2025 | V3.9

Contents

Programs

Programs: Overview

FundLoans guidelines are structured to assist Brokers by making common-sense lending decisions on loans to their borrowers who may have limited access to credit. These borrower's situations generally require us to consider alternative forms of documenting income and/or compensating factors that can offset repayment risk indicated by a recentcredit event or elevated debt-to-income ratio.

Loans eligible for sale to a Government Sponsored Entity (Federal National Mortgage Association ("Fannie Mae" or "FNMA") or Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC") are not eligible for the FundLoans Montage: Full Documentation Program

Programs: Eligible Products

FULLY AMORTIZING	TERM	QUALIFYING RATE
30 Year Fixed	360	Note Rate
40 Year Fixed	480	Note Rate
5/6mo SOFR ARM (2/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate
7/6mo SOFR ARM (5/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate
Interest Only	TERM	QUALIFYING RATE
30 Year Fixed (10 Year I/O)	360	Full Amortizing PITIA over 20 years
40 Year Fixed (10 Year I/O)	480	Full Amortizing PITIA over 30 years
5/6mo SOFR ARM (2/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate Over 20 Years
5/6mo SOFR ARM 10 Year I/O (2/2/5 Cap Structure)	480	> Note Rate or Fully Indexed Rate Over 30 Years
7/6mo SOFR ARM (5/2/5 Cap Structure)	360	> Note Rate or Fully Indexed Rate Over 20 Years
7/6mo SOFR ARM 10 Year I/O (5/2/5 Cap Structure)	480	> Note Rate or Fully Indexed Rate Over 30 Years

Programs: Loan Amounts / Prepayment Penalty

- See Program Matrix

Prepayment Penalty on investment properties only. Standard 3 year prepay on all investment loans with an option for 2 years or 1 year prepay at additional cost. Must follow federal and state regulations.

Programs: Minimum FICO

See Program Matrix – applies to PrimaryEarner.

Programs: Maximum LTV/CLTV

See Program Matrix

Programs: Interested Party Contributions (Seller Concessions)

The table below provides IPC limits for conventional mortgages.

IPCs that exceed these limits are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Principal residence or second home	Greater than 90%	3%[1]
	75.01% – 90%	6%
	75% or less	9%
Investment property	All CLTV ratios	2%

Lender credit derived from premium pricing is not considered an IPC.

Programs: Escrow – Impound Accounts

Escrow funds/impound accounts are assumed to be established for all loans funded by FundLoans unless you specifically request a price with impounds waived. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, groundrents, water, sewer, HOA Dues (if permitted by law), etc. Flood insurance must be escrowed.

Impounds may be waived on a case-by-case exception basis under the following circumstances. Waiving either taxes or insurance will be considered waiving escrows:

- For loans determined not to be HPML (High Priced Mortgage Loans) an option to waive impounds can be considered for an adjustment to rate or costs.
- LTV 90% of less
- 620 minimum credit score

Programs: Secondary Financing

Secondary financing is limited to Institutional Bank and Non-Bank Lenders (at FundLoans' discretion). Existing secondary financing must have a recorded subordination agreement or be paid in full at the time of a refinance. CLTV calculations must be calculated at the maximum available draw amount on HELOC's seconds unless the applicant can provide documentation to prove the line of credit is past its draw period.

All subordination agreements must be approved by FundLoans' Legal Department.

Programs: Statement of Occupancy

Applicants must re-confirm their intended use for the subject property ("Primary Residence", "Second Home" or "Investment Property") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Appendix of these guidelines.

Programs: Ability to Repay / Qualified Mortgage Rule

FundLoans will only fund loans under the Montage: Full Documentation program that meets the CFPB's requirements under its Ability-to-Repay (ATR) guidance, including loans that meet the general ATR requirements and certain higher-priced qualified mortgage loans with rebuttable presumption liability protection, as prescribed by the applicable regulation.

Each loan delivered for funding must include a completed "Ability-To-Repay Borrower Confirmation" form (found in the Appendix to these Guidelines)

Programs: State and Federal High-Cost Loans

Loans meeting the State or Federal definitions of High-Cost Loans are not currently permitted for this program.

Texas Section 50(a)(6) not allowed on owner-occupied >$3,000,000, lesser loan amounts will require additional overlays and 5% LTV reduction.

Programs: Listing Seasoning

Properties previously listed for sale must be seasoned at least 6 months from the listing contract expiration date to the application date. Listings seasoned less than 6 months at time of application are eligible (cashout or rate & term) if all the following are met:

- Listing removed/canceled prior to application;
- LLPA and rate adjustment in accordance with FL pricing at time of lock;
- Borrower-paid compensation only;
- 5% reduction from max LTV
- Value is lesser of appraised value or prior listing price;
- Loan Amount is <$4,000,000 (unless loan amount exception is granted).

Note: Prepayment penalty is required on investment properties, subject to LLPA buyout if allowed.

On case-by-case basis, shorter seasoning may be allowed and not subject to the above requirements if:

- Listing was required by court order (divorce decree, joint tenancy dissolution, etc.); or
- Property proceeds are used to buy out the interests of co-beneficiaries (such as inherited property, dissolution of trust, etc.) and
- LTV% is at least 10% below maximums.

Programs: Servicing Release Premium Re-Capture

Loans that pay off early, as defined in the Mortgage Loan Purchase Agreement will besubject to premium recapture.

Programs: Early Payment Default (EPD) / Prepayment Penalty

Early Payment Default (EPD), loans that become delinquent after the loan funding by FundLoans are subject to repurchase by the Broker pursuant to the EPD language inthe Mortgage Loan Purchase Agreement.

Programs: Assumable Notes

Fixed-Rate Notes – Are not assumable

Adjustable-Rate Notes – May be assumably based upon the note (in general Fannie Mae Notes contain an assumable clause). In any case, the verbiage in the Note and Closing Disclosure must match

Programs: Property Insurance Coverage Requirements

Property insurance for loans must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis.

Extended coverage must include, at a minimum:

- Wind
- Civil commotion (including riots)
- Smoke
- Hail, and
- Damages are caused by aircraft, vehicles, or explosions.

Policies that limit or exclude from coverage (in whole or part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain property insurance policies that include such limitations or exclusions unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or froman insurance pool that the state has established to cover the limitations or exclusions.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangements. The insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis.

If it does not, then the coverage that does provide the minimum required amount must be obtained.

Programs: Maximum Age of Documents

- Paystubs: 90 days prior to the Note Date
- Profit and loss statement/balance sheet: 60 days prior to the Note Date
- CPA/licensed/certified tax preparer letter or equivalent: 60 days prior to the Note Date

Programs: Declining Markets

Properties in which the appraiser is reporting a declining trend in values for the subject's market area require a 5% reduction in the maximum LTV for the applicable program.

ELIGIBLE TRANSACTIONS

Eligible Transactions: Purchase Defined

Proceeds from the transaction are used to finance the acquisition of the subject property. LTV/CLTV is based upon the lesser of the sales price or appraised value.

Eligible Transactions: Rate/Term Refinance Defined

Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property. Any subordinate loan not used in the acquisition of the subject property provided one of the following applies:

- Closed-end loan, at least 12 months of seasoning has occurred;
- HELOC, at least 12 months of seasoning has occurred and total draws over the past 12 months are less than $2,000.
- UCC liens (of any age) used specifically for home improvement (Example: Purchase ofSolar Panels, Energy Efficiency Upgrades, Swimming Pools)

Buying out a co-owner pursuant to an agreement with all current title holders and obligors (payoff of co-owner portions of encumbrances and equity not considered“cash-out”).
Refinancing the indebtedness on a property owned by a non-borrowing spouse, domestic partner, or fiancé' AND the borrower has lived with the non-borrowing spouse, domestic partner, or fiancé' for the past 12 months and will continue to co-occupy is allowed.

Paying off an installment land contract executed more than 12 months from the loan application date (Closing costs and prepaid can be added into loan amount if LTV/CLTV allows)

Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.

LTV/CLTV based upon the appraised value. Loans with loan amounts (inclusive of closing costs and prepaid) that do not exceed the original acquisition cost are acceptable at any time following the original acquisition.

EXAMPLE: Applicant wishes to refinance a private money mortgage used for the financing portion of recent property acquisition and seeks new permanent financing at improved terms or interest rates soon after the acquisition.

Eligible Transactions: Delayed Financing

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:

- The original transaction was an arm's-length transaction.
- The borrower(s) must have purchased the property under an eligible vesting type under Section 4.1 below.
- The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.)
- The preliminary title search or report must confirm that there are no existing liens on the subject property.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- 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), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
  Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
- 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 of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV and CLTV ratios for the cash-out transaction based on the current appraised value).

- Value is limited to the lower of the current appraised value or the property's purchase price + documented improvements
- All other cash-out refinance eligibility requirements are met. Rate/Term pricing is applicable.

Eligible Transactions: Cash Out Refinance Defined

Proceeds from the transaction are used for any refinance that does not meet the definition of a rate/term transaction. A mortgage secured by a property currently owned free and clear is considered cash out. The payoff of delinquent real estate taxes (60-days or more past due) is considered cash out.

A letter explaining the use of loan proceeds required when the cash-out exceeds $250,000. (See Matrices for cash-out limits).

Loans not eligible for cash-out:

- Properties listed for sale in the past 6-months. (See Programs Listing Seasoning for possible exceptions)
- Non-Arm's Length and Interested Party Transactions (See guidelines below)

Cash-Out Seasoning is defined as the difference between the application date of the new loan and prior financing note date or date of purchase:

Refinancing the indebtedness on a property owned by a non-borrowing spouse, domestic partner, or fiancé' AND the borrower has lived with the non-borrowing spouse, domestic partner, or fiancé' for the past 12 months and will continue to co-occupy is allowed.

Below seasoning requirements are acceptable for cash-out transactions.

- For properties owned 6-months or longer, the LTV/CLV is based upon the appraised value.
- Cash-out Seasoning of less than (6) months is not allowed when the prior transaction was also cash-out.
- Cash-Out Seasoning of six (6) months or less is allowed with the following restrictions:
  - Property value is limited to the lower of the current appraised value orthe property's purchase price + documented improvements.
  - The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
    - At least one of the following must exist:
      - No mortgage financing was used to obtain the property
      - The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at the time of sale.).
      - The preliminary title search or report must confirm that there are no existing liens on the subject property, or the existing lien being

refinanced was taken out after the property was obtained as evidenced by a copy of the note.

- The mortgage being refinanced was used to purchase the property and has an original term of 24 months or less as evidenced by a copy of the settlement statement and original note.
- 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), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or paydown, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.
- The lender has documented that the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

Eligible Transactions: Cash Out Refinance (Debt Consolidation)

Cash-out transactions meeting the following additional requirements may be eligible forenhanced LTV's or pricing based on R/T refi LTV/CLTVs capped at 80%:

- Primary Residence only
- Mortgage and non-mortgage debts are paid off and total monthly debt payments are lowered by at least 10%
- Closing costs are recouped within 60-months
- Cash in hand may not exceed $5,000 or 2% of the loan balance

The closing documents must reflect the paid-off debts. IRS liens that are not yet on a repayment plan but are being paid as part of a debt consolidation refinance can be assumedto have a monthly payment of 1% of the outstanding balance per month, for the purposes of calculating the 10% per month lowering of total monthly debt payments.

If all the above guidelines are met the reserve requirement is reduced to 1 month required.

Eligible Transactions: Ineligible Non-Arm's Length & Interested Party Transactions

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with the subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include:

- Family sales
- Property in an estate
- Employer/employee sales
- Landlord / Tenant Sales
- Flip transactions
- Realtor representing self

When the property seller is a corporation, partnership, or any other business entity it must be ensured that the borrower is not an owner of the business entity selling the property (must be treated as a refinance).

A non-arm's length transaction to bail out a family member who has had difficulties making their mortgage payment is not allowed. A thorough review of the payoff statement, property profiles, and title report in these cases is required to search for evidence of derogatory payment history events, such as Late Charges, outstanding fee or penalty balances, Notices of Default, or filings of Lis Pendens. FundLoans may request additional servicing data on thepayment history of loans it is being asked to pay off.

Purchase between family members is only allowed on Full Documentation loan types A.

Conflict-Of-Interest Transaction can occur when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker, or Agent, or any other interested party to the transaction. In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised.

For example, FundLoans won't allow the seller's real estate agent for the subject property to also act as the loan officer for the borrower(s) purchasing the same subject property.
Employer to employee sales or transfers is not allowed. Property trades between buyer and seller are not allowed

An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser, and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties maybe required

Eligible Transactions: Eligible Non-Arm's Length & Interested Party Transactions

FundLoans will consider Non-Arm's Length & Interested Party Transactions on a case-by-case basis (LTV restrictions and additional documentation requirements may apply).

Buyer(s)/Borrower(s) representing themselves as an agent in a real estate transactioncan be allowed. However, a commission earned by the buyer/borrower cannot be used for the down payment, closing costs, or monthly PITIAA reserves.

If your relative (or donor that meets FNMA eligible donor definition) is your real estate agent but no other party to the transaction (builder, developer, broker, seller, etc.) this is also acceptable; however, the gift must be sourced and received prior to close and commission for the transaction cannot be used for a gift.

Seller(s) representing themselves as an agent in real estate transactions are allowed.

A current tenant purchasing the property from a landlord where he/she has rented forat least the last six (6) months immediately predating the sales contract is considered an Arm's Length Transaction. Housing payment history must be provided in accordance with Credit: Housing Payment History (mortgage/housing payment historyfor a minimum of the 12 months leading up to the application date) and documented pursuant to the methods under Credit: Accounts Not Appearing on Credit Reports. A Tenant that has rented from the Landlord less than six (6) months prior to the sales contract may only document the Housing Payment History to the selling Landlord by providing canceled checks.

Eligible Transactions: Restrictions on Non-Arm's Length & Interested Party Transactions

- Primary Residences only
- Borrower to provide canceled check verifying the earnest money deposit
- Maximum LTV/CLTV: 80%
- For-Sale-By-Owner (FSBO) transactions must be arms-length *Does not apply to family sales

Eligible Transactions: Non-Occupant Co-Borrowers Allowed

Non-occupant co-borrowers are credit applicants who do not occupy the subject property as a principal residence. Non-occupant co-borrowers must meet the following requirements:

- Do not occupy the subject property as a principal residence
- Must be an immediate relative, relationship letter is required
- Must sign the mortgage or deed of trust
- Must not have an interest in the property sales transaction, such as the property seller, builder, or real estate broker
- Joint liability on the note with the borrower

Program Restrictions:

- Primary Residence Only
- Cash-Out not permitted
- Blended ratios allowed up to 80% max LTV/CLTV on Montage Prime and 75% max LTV/CLTV on Montage
- For LTV> 80% on Montage Prime or 75% on Montage Credit Graded the Occupying borrower's DTI cannot exceed 60% DTI

Eligible Transactions: First Time Homebuyers

The following requirements are intended to apply to FTHB transactions for borrowers that have never owned real estate and does not apply to:

a) A borrower that has previously owned (over 3 years ago) or
b) A borrower who does not own a primary residence but owns other properties, such as a second home or investment property
c) If any occupying borrower meets the requirements in option a or b, the file is not to be deemed a FTHB

For a FTHB who has never owned real estate previously:

- Limited to primary residence only
- Minimum 660 credit score
- DTI may not exceed 45%
- 12-month rental history required reflecting 0x30. Rental history is not required for borrowers living

rent-free (See the Housing History section of this guide for restrictions on borrowers living rent-free)

Eligible Transactions: Limitations on Financed Properties

There is no limit on the number of other properties the borrower may currently have financed. FundLoans' exposure to a single borrower shall not exceed $15,000,000 in current UPB or six (6) properties.

All financed properties, other than the subject property, require an additional two (2) months PITIA of the subject property in reserves for each property. The total reserve requirement is not to exceed twelve (12) months.

Citizenship / Residency

Citizenship/Residency: Eligible Types

U.S. Citizens:
Eligible without restrictions

Permanent Resident Aliens: Eligible without guideline restrictions
Defined: An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United
Acceptable evidence of permanent residency include the following:

- Alien Registration Receipt Card I-151 (referred to as a green card).
- Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an the expiration date on the back (also known as a green card).
- Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) has an the expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions Non-expired foreign passport
- Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."

Non-Permanent Resident Alien: - Eligible without guideline restrictions
Non-permanent residents of the United States, as defined by the INS, are eligible borrowers on loans purchased by FundLoans.

o Identification Requirements:

- Non-US Citizens must provide non-expired official identification to confirm and document the applicant's immigration status
- Documentation must include:
  o Identification type and number
  o Place of issuance
  o Issue and expiration dates

Evidence of employment in the US including a USCIS Employment Authorization Document (EAD)(I-766) Or; An unexpired non-immigrant visa stamp with an entry.
The following Visas are acceptable:

- E Series
- G Series
- H Series
- L Series
- O Serie

Foreign National:
Not Allowed

Citizenship/Residency: Ineligible Types

- Applicants possessing diplomatic immunity
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party-list, or any other exclusionary list. Refer to Fannie Mae guidelines forall definitions of eligibility status.

Vesting

Vesting: Power of Attorney

A Limited Power of Attorney (POA) is acceptable when the following requirements are met:

- POA is specific to the transaction
- If not already recorded, POA is in recordable form and recorded with the Mortgage/Deed of Trust Contains an expiration date
- Used only to execute the final loan documents (Borrower represented by the POA shall have signed the initial 1003)
- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as the Power of Attorney
- All Power of Attorney must be reviewed by FundLoans' Legal Department.

Vesting: Inter Vivos Revocable Trust

NOTE: FundLoans allows title vesting in Revocable Trusts but does not base its lending decision on income or credit of the Trust. FundLoans only makes loans to individual borrowers, who may choose to have title vested in a Revocable Trust for their convenience. FundLoans does NOT lend to a trustee (or beneficiary) of a trust who is not, also, a trustor of the trust.

An inter vivos revocable trust is permitted when the trust has an ownership interest in the subject property for all transaction types. The trust must meet the following standards:

- The trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) establishing the trust.
- The trust must become effective during the lifetime of the person establishing the trust.
- If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee must include either:

- The individual establishing the trust (or at least one of the individuals, if 2 or more); or
- An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee must have the power to hold the title and mortgage the property. This must be specified in the trust.

One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage. The following documentation is required:

- A complete copy of the trust documents certified by the borrower to be accurate or a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements can be provided in the loan file.
- Attorney's Opinion Letter (see Appendix of this guide) from the borrower's attorney or Certificate of Trust verifying all the following:
  - The trust is revocable,
  - The trust was validly created and is duly existing under applicable law,
  - The borrower is the settler of the trust and the beneficiary of the trust,
  - The trust assets may be used as collateral for a loan,
    - The trustee is:
      - Duly qualified under applicable law to serve as trustee,
      - The borrower,
      - The settler,
      - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets.

The Attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

NOTE: A Power of Attorney (POA) may not be used to execute loan documents on behalf of the Trustee/Borrower

Vesting: Business Entities (LLC, Corp, S-Corp, Partnership)

NOTE: FundLoans allows title vesting in business entities but does not base its lending decision on the income or credit of the business entity. FundLoans only makes loans to individual borrowers, who may choose to have title vested in a business entity for their convenience. At least one borrower must have 20% ownership in the business entity.

Vesting in the name of an LLC, partnership, or corporation is acceptable on investment property transactions only.

To vest a loan in an Entity, the following requirements must be met:

- Business purpose and activities are limited to ownership and management of the real estate
- Loans to be vested in the name of a Business Entity will be limited to a maximum of 4 individual borrowers/members (aka members, partners, or shareholders) Any of the members that choose to become a borrower must complete 1003. The loan application, credit report, income, and assets for each owner will be used to determine qualification and pricing.

- Each Entity owner must receive notice of the loan and its terms prior to closing
- All Business Entity owners must sign FundLoans' Limited Liability Company. Borrowing Certificate acknowledging the Borrower(s) financing of the subject property.

The following Entity documentation must be provided:

- Entity Articles of Organization, Partnership, and Operating Agreements (if applicable)
- Tax Identification Number
- Certificate of Good Standing

No broker shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the owners of the Entity.

Documents must be completed and signed as follows:

- Business Purpose and Occupancy Affidavit
- Loan Application (1003):
    - Completed and signed by each Borrowing Member
    - 1003 section labeled "Title will be held in what Name(s)" should be completed with only the Entity name Disclosures (GFE, TIL, Notice of Intentto Proceed, Servicing Disclosure, etc.) - completed and signed by each owner Guaranty - completed and signed by each owner (or 'Guarantor')

Closing Disclosure completed and signed by each borrower

Other Closing Documents (Final TIL, Business Purpose and Occupancy Affidavit, etc.) completed by each Borrowing Member

Vesting: Ineligible Vesting

- Irrevocable Trust
- Land Trust
- IRA's
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction

INCOME

Income: Acceptable Income Doc Types

Acceptable income documentation types and calculation methods are as follows:

- Full Documentation – 12 Month & 24 Month.
- Written Verification of Employment
- Asset Allowance
- Assets Only

Income: Income History & Continuance

The income of each applicant who will be obligated for the mortgage debt must be analyzed to determine whether his/her income (from all sources) can be reasonably expected to continue through at least the first three years of the mortgage loan. Each source of income should have a minimum of 2-year history and a minimum 3-year likelihood of continuance.

Guaranteed sources of income, such as annuities, pensions, social security retirement benefits need not have a history if the award letter is provided and the first payment will begin on or before the date of the first mortgage payment.

Income: Stability, Increasing & Declining Income

All sources of income included in the loan qualification must be stable, with a reasonable expectation that at least the same level of income will continue for a minimum of three years. Income increases can be immediately considered in the case of salaried incomes where a recent raise is evident (or the applicant has been notified of a raise that will be in place on or before the first payment date) that can be verified by FundLoans.

Increases in income for self- employed (as evidenced by YTD licensed/certified tax preparer provided P & L's) can be averaged with prior year's data to give the applicant additional income if the P&L expense line items and expense ratios are consistent with past years (or an acceptable explanation is provided).

For Schedule C business (Sole Proprietor), a YTD borrower prepared P&L may be used with the following stipulations:

- Borrower to provide YTD bank statements showing eligible deposits within 10% of Borrower Prepared P&L Gross Revenue
- Expense Ratio based on immediate prior-year tax return Schedule C

Any income that has significantly declined (greater than 20%) from the (monthly or quarterly) averages in the earlier portions of the time period considered (12 Months or 24 Months) must have re-stabilized during the most recent 6 months and the amount of qualifying income will be limited to the new lower pace. An explanation for the decline must be provided that supports the assumption that no further declines in income are anticipated.

In no case can an income source be used for qualification if any knowledge or documentation is indicating that the income will terminate within the first three years of the loan. Applicants whose employers indicate that an income source will end in 3 years or less, due to retirement or layoff, must be qualified on sources other than the income source in question.

Income: Full Doc - Salaried Applicants

For purposes of this section, salaried applicants are defined as those who earn wages that are reported on IRS W2 forms at year-end and for which income taxes are withheld on regular paychecks. [Note: Applicants or co-applicants who are relying on rental income, income from partnerships or corporations (in addition to salaried income) in order to qualify are documented similar to self-employed borrowers]

- Employment History & Stability Requirements: Applicants must generally have a two-year history in their line of work. If an applicant has less than 2 years' experience in their line of work, vocational or military training or education in the same field is considered an acceptable substitute (documentation of training or schooling should be provided). An applicant that has been in a line of work less than 2 years but has had at least one documentable wage increase or favorable performance review is also acceptable.

Gaps of employment greater than 30 days must be explained in writing by the applicant. Gaps of employment greater than 6 months require an explanation from the applicant and a minimum two-year history in the line of work prior to the gap documented. Job changes within the same line of work are not considered adverse factors so long as income is stable or increasing and gaps are addressed.

A borrower starting with a new employer during the application process can be considered if a written offer letter confirming the name of the employer, the start date, the position, the rate of pay is provided (and subsequently confirmed). The applicant must start the position prior to closing and FundLoans' Verbal VOE mustsuccessfully confirm the start date.

- <u>24 mo Full Doc - Minimum Documentation Requirements</u>: The following documentation must be present in the file to make a determination of a salaried applicant's income
  - Standard Verification
    - Current Paystubs w/ withholding info as follows:
      - 1 if paid monthly
      - 2 consecutive if paid bi-weekly or semi-monthly
      - 4 consecutive if paid weekly
    - For employment that includes variable hours or pays one of the following is required:
      - 2 Previous years ending paystubs and/or
      - Written Verification of Employment will be needed for the analysis of all payments including overtime, bonus, commission, etc.
    - W-2 and/or 1099 for the most recent 2 tax years. For 1099 borrowers 2 years tax returns may be waived and wage-earner documentation requirements are followed when all of the following requirements are met:
      - 1099s for the most recent 2 years are provided
      - 1099s are from the same single employer for the past 2 years.
      - 1099s are validated with a wage and income transcript from the IRS
      - Year-to-date earnings are verified via a YTD paystub, written VOE, or another equivalent third-party documentation
      - Documentation is obtained from the employer confirming borrower has no job-related expenses (Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position; however, documentation still must be obtained from the employer confirming the borrower has no job-related expenses.
    - Verbal VOE (dated within 5 days of closing)
    - W-2 and/or 1099 transcript, if available. In all cases, a transcript will be required after June 30th of the current year. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained to satisfactorily address.
    - If tax returns are present in the credit file, transcripts for the return will be

required (If 1040 transcripts are provided, W2/1099 transcripts are not required).

- In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file.
  - Must document that taxes have been filed via evidence of e- filing, tax refund, or proof of payment
- Evidence of any IRS filing extensions must also be present in the loan file.

- <u>12 mo Full Doc - Minimum Documentation Requirements</u>: The following documentation must be present in the file to make a determination of a salaried applicant's income
  - Standard Verification
    - Current Paystubs w/ withholding info the following is required:
      - 1 if paid monthly
      - 2 consecutive if paid bi-weekly or semi-monthly
      - 4 consecutive if paid weekly
    - For employment that includes variable hours or pays one of the following is required:
      - Previous year ending paystub and/or
      - Written Verification of Employment will be needed for the analys is of all payments including overtime, bonus, commission, etc.
    - W-2 and/or 1099 for the most recent tax year. For 1099 borrowers 1 year's tax return may be waived and wage-earner documentation requirements are followed when all of the following requirements are met:
      - 1099s for the most recent tax year is provided
      - 1099s are from the same single employer for the past 1 year.
      - 1099s are validated with a wage and income transcript from the IRS
      - Year-to-date earnings are verified via a YTD paystub, written VOE, or another equivalent third-party documentation
      - Documentation is obtained from the employer confirming borrower has no job-related expenses (Note: 1099 forms covering a full 1-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position; however, documentation still must be obtained from the employer confirming the borrower has no job-related expenses.
    - Verbal VOE (dated within 5 days of closing)
    - W-2 and/or 1099 transcript, if available. In all cases, a transcript will be required after June 30th of the current year. Any discrepancies between the two documents should be explained, and if necessary, additional documentation obtained to satisfactorily address.
    - If tax returns are present in the credit file, transcripts for the return will be required (If 1040 transcripts are provided, W2/1099 transcripts are not required).
      - In the case where taxes have been filed and the wage transcripts are not available from the IRS, the IRS response to the request must reflect "No Record Found" and be present in the loan file.
        - Must document that taxes have been filed via

evidence of e-filing, tax refund, or proof of payment

- Evidence of any IRS filing extensions must also be present in the loan file.

NOTE for 12- or 24-month full doc: IRS 1040s are not required unless also using other sources of income to qualify i.e., interest dividends, capital gains, etc.

Income: Full Doc - Bonus Income

Generally, an applicant must have a two-year history of bonus income (or past year & year-to-date for 12-month income program) from the same employer in order to consider the bonus as part of the qualifying income.

If an applicant who switched jobs within the same line of work, had received bonus income from the prior employer and has received at least one bonus from their current employer bonus income may be considered for qualifying income provided the applicant can document a likelihood of continuance of bonus income at the new employer.

Income: Full Doc - Overtime Income

Overtime income can be used to qualify the applicant if he/she has received this income for the past two years, and it will likely continue. If an employment verification states that the overtime income is unlikely to continue, it may not be used in qualifying. Develop an average of overtime income for the past two years with year-end paystubs and year-to-date on 24

Month programs and use a prior year-end paystub and year-to-date information on a 12 Month program.

To take advantage of raises to hourly compensation, if the employer confirms the number of overtime hours logged for the employee in the preceding 2 years & year-to-date, the underwriter can develop an average number of overtime hours multiplied by the current hourly rate for overtime earnings, so long as the number of hours, each year is stable or increasing.

Income: Full Doc - Commission Income

To include commission income as qualifying income the applicant must have a consecutive, and most recent two-year history in the same field, and the commission income must be determined and calculated separately from base wages for the two years period.

Applicants whose commission income was received for more than one full calendar year, but less than two years, may be considered favorably if the likelihood of continuance can be documented in the file. Commission income earned for less than one year is not considered qualifying income and will be treated as a compensating factor only.

[NOTE: Exceptions may be made for situations in which the applicant's compensation was changed from salary to commission within a similar position with the same employer.]

Commission income may fluctuate from year to year and therefore, an average of the last two years of income should be used in qualifying the applicant. Develop an average of commission income from the past two years' year-end paystub and year-to-date paystub information on 24 Month programs and use a prior year-end paystub and year-to-date information on a 12 Month program.

(Written VOE's can be used, instead of year-end paystubs if the VOE's are consistent with W2 earnings information).

Annual earnings should be level or increase from one year to the next. If the trend for the commission earnings shows a decline of 20% or more year-over-year, an explanation mustbe provided by the applicant and it may be disqualified from consideration.

Income: Full Doc - Restricted Stock Units

Only restricted stock that was awarded in the prior two (2) years and became unrestricted (vested) in the current year is eligible.

The vesting schedule must indicate the income will continue for a minimum three (3) years at a similar level to the prior two (2) years. Continuance is based on the vesting schedule using a stock price based on the 52-week low for the most recent twelve (12) months reporting at the time of closing. A two (2) year average of prior income received from RSU's or stock option will be used.

The following documentation is required:

- Copy of vesting schedule; and
- Most recent W2 and paystub.

Stock must be public and listed on a major stock exchange.

Income: Full Doc - Stock Options

Corporate stock options are frequently used by an employer as an incentive to attract new hires or to compensate employees with a more direct interest in the success of the company.Stock options may be utilized as income if a two-year history of vesting and 1-year of exercise of the stock option and subsequent liquidation deposits into bank statements can be documented.

Income: Full Doc - Partial Year Paid Applicants

Certain applicants (such as teachers or forest fire fighters) may be paid for only part of the year. The underwriter must ensure that the monthly qualifying income calculation incorporates this partial-year employment. To determine a partial year paid applicant's qualifying income, the monthly salary is multiplied by the number of months the applicant ispaid and divided by 12.

Income: Full Doc - Part-time or Second-job Income

For qualifying purposes, "part-time" income refers to employment taken to supplement the applicant's income from regular employment. Part-time employment is not a primary job and it is generally worked less than 40 hours.

Part-time and seasonal income can be used to qualify the applicant if it is documented that the applicant has worked the part-time job consistently for the past two years and plans to continue. If the borrower can demonstrate a continuous 2-year history of full-time primary employment with the same employer (or in the same field) in addition to a 2-year history of part-time secondary employment with one or more employers (or a combination of ScheduleC and/or W2 wages) both sources of income can be considered for qualifying purposes if at least a 2-year history of stable or increasing income can be documented for both income sources.

[Example: Borrower has held full-time primary employment as a bookkeeper for the past 24 months: 14 months for Employer A, the past 10 months for Employer B – with no gaps in employment greater than 30 days. The borrower has also had a 24-month history of part-time cosmetic sales, first as a Schedule C employee with a multi-level marketing firm, then as a W2 employee with a retail department store chain.]

Part-time income received for less than two years may be used as a compensating factoronly and may not be used in qualifying.

Income: Full Doc - Gratuities and Tips

Gratuities and tips can only be included in qualifying income if they have been included in the prior two years of taxable income. This income source is usually found on W-2s or 1040s. The income should be reported to the IRS and averaged unless declining.

Income: Full Doc – Seasonal Income

To use seasonal job income (i.e., income based on annually recurring but temporary circumstance) as qualifying income, the income should have a two-year historical record and be verified via the applicant's most recent pay stub and previous year's W2s.

Examples of seasonal employment include: umpiring baseball games in the summer;or working at a department store during the holiday shopping season.

Seasonal income is considered uninterrupted and may be used to qualify the applicant if it can be documented that the applicant has worked the same job (or similar job for different employers) for the past two years and intends to seek work the next season.

Additionally, if an applicant has a history of seasonal employment and seasonal unemployment income, the unemployment income may be considered effective income per the requirements listed below.

Income: Full Doc - Employment Contracts/Raises

An employment contract is a legally enforceable written document executed jointly by the employer and employee. Employment agreements and offer letters are additional forms of acceptable employment documentation, provided they are fully executed by all parties and afford the same information as previously described. The contract (including employment agreements and offer letters) should define pertinent employment details, including employment start date, the applicant's length of employment, and salary. The contract terms should be reasonable relative to the role. The applicant must also meet employment stability standards as outlined above. Guaranteed performance raises and bonuses from an applicant's current employer may also be considered under this section.

Qualify an applicant utilizing the income documented in the employment contract as defined provided:

- The employment contract is fully executed by the employer and employee and does not contain contingencies, and
- The applicant will start employment or begin receipt of the income (as applicable within 60 days of closing

Income: Full Doc – Family-Owned Business

An applicant who is employed by a family-owned business (but is not self-employed) or employed by an interested party to the property sale, purchase, or financing transaction mayrepresent a less predictable source of income. In addition to normal employment verification,an applicant employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include: copies of signed personal federaltax returns, or a signed copy of the corporate federal tax return showing ownership percentage.

Income: Full Doc - Applicants Recently Converted to K-1

An applicant who has recently been made a partner in their employer (typically but not necessarily a law firm, accounting firm, etc.) may also have their income considered stable. Applicants must provide their most recent two-year's tax returns with all supporting documents and a copy of their partnership agreement. Income shall be calculated based on the most recent two years' W-2 income compared with any guaranteed payments they are to receive under their new compensation structure. Guaranteed payments must be in line with the previous salary utilized to qualify. A minimum of two years of employment in the same line ofwork must be verified. Applicants who are switching employers AND changing from a W-2 to a K-1 position may be considered under this guideline, provided the ownership interest in the new firm is of a minimal nature. The calculation of the income in this situation shall be the more conservative of guaranteed payments or historic income. A minimum of two years of employment in the same line of work must be verified.

Applicants who become a partner in their current employer with an ownership interest greater than or equal to 25% may also be considered under this guideline. In addition to two years of personal income tax returns, the company's most recent two years of tax returns must be provided to ensure no losses were incurred by the business which would need to be taken into account. A minimum of two years of employment in the same line of work must be verified.

Income: Full Doc - Employment History & Stability Requirements

Applicants must generally have a two-year history in their line of work. If an applicant has less than 2 years' self-employment, a lesser history with a general minimum of one year may be acceptable provided the applicant has a minimum 2-year previous history in the same line of work. Gaps of employment greater than 30 days must be explained in writingby the applicant. Gaps of employment greater than 6 months require an explanation from the applicant and a minimum two-year history in the line of work prior to the gap.

Income: Full Doc - Self-Employed Applicants

For purposes of this section, an Applicant is deemed to be self-employed when their primary income source is from a business that they have an ownership interest in which is 20% or greater.

A licensed/certified tax preparer letter used to verify self-employment addressed to a correspondent (or To Whom It May Concern) is acceptable. The letter will be re-verified either verbally or in writing prior to funding. The re-verification shall be good for 120 days prior to the Note date.

Income: Full Doc - Minimum Documentation Requirements

The following documentation must be present in the file to make a determination of a self-employed applicant's income:

- Most recent one or two year's personal federal tax returns (depending on the below),
- Any K-1s relating to self-employment listed on the personal federal tax return(s) provided,
- Most recent one- or two-year's business federal tax returns (depending on the below) for primary business(s) relied upon for qualifying, and any business owned 25% or more
- Year-end and/or year to date profit and loss statement and balance sheet (balance sheet not required for sole proprietorship) for primary business(s) relied upon for qualifying, if the note date of the file will be more than 4 months removed from the end date of the most recent tax returns provided.

Income: Full Doc – Maximum Age of Documents

- Paystubs (if utilized): 120 days prior to the Note Date
- Profit and loss statement/balance sheet: 120 days prior to the Note Date
- licensed/certified tax preparer letter or equivalent: 30 days prior to the Note Date

Income: Full Doc - Treatment of Income Sources

Method One | One Year's Returns

The applicant provides the most recently filed one (1) year of personal and business federal tax returns along with a licensed/certified tax preparer prepared (does not need to be fully audited) YTD Profit and Loss Statement and Balance Sheet (Balance Sheet not required for Sole Proprietorship). If a gap exists between the tax return ending date and the start of the YTD P&L, a gap year P&L and Balance Sheet is required along with evidence of any IRS filing extensions must also be present in the loan file.

Qualifying income is determined from the following:

- Borrower prepared P&L(s) are acceptable if signed by borrower(s) and one of the following applies:
  - Use average monthly income from tax return (the P&L(s) is only used to determine that income supports P&L(s))
  - Use average monthly income from tax return + YTD P&L (if applicable) and/or Year-end P&L when current tax year on extension but income from P&L(s) must be consistent with tax return provided (income and expenses)and no more than 15% greater than tax return provided. In addition, if P&L(s) covers more than 9 months, a minimum of 3 months of bank statements are required to validate the continued positive cash flow of the borrower's business.
- Licensed/certified tax preparer prepared P&L(s) with tax return as follows:
  - Use average monthly income for 12 months + YTD P&L (if applicable) and/or Year-end P&L when current tax year on extension but income from P&L(s) must be consistent with the tax return provided (income and expenses). In addition, if P&L(s) covers more than 9 months, a minimumof 3 months of bank statements is required to validate the continued positive cash flow of the borrower's business. The following YTD P&Ls may be applicable depending on the application date of the loan submitted:

Date of application	P&L Period Required
1st Qtr	Not Applicable
2nd Qtr	1st Qtr
3rd Qtr	2nd Qtr
4th Qtr	3rd Qtr

Method Two |

The applicant provides the most recently filed two (2) years of personal and business federal tax returns. Income is generally calculated based on a 24-month average of the tax returns provided if income is increasing and a 12-month average of the most recent year's returns if income is decreasing. If income is decreasing, an explanation and/or additional documentation may be required. A year-end and/or year-to-date profit and loss statement & balance sheet prepared by the applicant may be required but to use P&L in qualifying it may need to be licensed/certified tax preparer prepared based on the following. For income declining, more than 20% files may be ineligible or require an exception.

Licensed/certified tax preparer prepared P&L(s) may be used for Method Two as follows:

- Use average monthly income for 24 months + YTD P&L (if applicable) and/or Year-end P&L when current tax year on extension but income from P&L(s) must be consistent with tax returns provided (income and expenses) and no more than 30% greater than tax returns provided. At the underwriter's discretion, a Borrower prepared P&L can be used but P&L(s) cannot be greater than 15% of tax returns provided.
- At the underwriter's discretion, use the average monthly income for 12 months + YTD P&L (if applicable) and/or Year-end P&L when current tax year on extension if income is declining 20% or less.

The following YTD P&Ls may be applicable depending on the application date of loan submitted:

Date of application	P&L Period Required
1st Qtr	Not Applicable
2nd Qtr	1st Qtr
3rd Qtr	2nd Qtr
4th Qtr	3rd Qtr

Income: Full Doc – Add Backs

For either method of documenting self-employed income, the following may be added back to the applicant's income calculation:

- Depreciation
- Amortization
- Pension contributions directly contributed to the applicant
- Any expense(s) that can reasonably be documented to be one time and non-recurring
- Net operating loss carry forwards from years prior to the tax returns analyzed
- Business expenses for debts already included in the DTI
- Business Use of Home
- Depreciation portion of Mileage Deduction (See IRS guides for applicable cents/mile per year)
- Mortgages, Loans, Notes Payable Less than 1 Year that is shown to be renewable, or for which the original Note proves that the balance is not due within a year

Income: Full Doc - Business Income not Used to Qualify

FundLoans does not require an applicant to provide corporate/partnership tax return(s) or interim financials if the income generated by the entity is insignificant and not being considered to qualify. K-1 income that is being used to qualify must provide tax returns if the applicant has a 25% or greater ownership in the business. K1's with losses need not provide business tax returns if the applicant has less than 25% ownership & no capital contributions were made (in any of the tax years considered). Business returns should be obtained when K1's show losses AND capital contribution were required OR when ownershipis 25% or greater.

Income: Full Doc - Types of Business Structures

There are four basic types of business structures:

Sole proprietorships - A sole proprietor generally files a Schedule C with their personal tax returns which reflects their business' income

Partnerships - Partnership income is generally shown on Schedule K-1 and is filed with the applicant's personal federal tax returns as well as with the partnership returns. If the applicant or applicants combined controls 25% or more of the business entity, the applicant(s) will need to provide the entity(s) tax returns.

Corporations - If the applicant or applicants combined, control 25% or more of the business entity, the applicant(s) will need to provide the entity(s) tax returns.

Use of Profits from a Corporation in addition to the self-employed income or salary paid to the applicant(s) by the Corporation, net income from the corporation may be considered as additional qualifying income. In order to use business "net profits" from a Corporation as a qualifying income source, the applicant(s) on the loan application must document receipt of the income during the time period of tax returns the applicant provides. Additionally, the following requirements must also be met:

- The applicant(s) must have a legal right to the additional income by obtaining a corporate resolution or other comparable documents that establish that right
- Verification from the accountant for the company indicating that the business can support the ongoing distribution of the corporate profits at the same or increasing level,

- The lender's analysis of the business must also support that the business is capable of providing the applicant(s) with additional income.

[Note that these requirements do not apply to an "S" Corp. Receipt of net income forthose businesses is sufficiently documented by the K-1 the applicant(s) receive.]

<u>Limited liability or "S" corporations Limited</u> Liability Company (LLC) Limited Liability Companies file taxes using partnership tax returns. The partnership tax return requirements listed above apply to these companies.

Income: Full Doc - Asset Distributions

<u>Distributions from Non-Retirement Accounts</u>

Non-retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from non-retirement assets must be set up and one month's distribution received prior to closing. The following requirements must be met:

Applicant(s) can provide supporting documentation verifying that they have had ownership of financial assets for a minimum of 12 months and that they have unrestricted access. Any deposits >10% of the face value of the account as of the most recent statement must be sourced and documented. Gift funds or other unacceptable deposits will be deducted from the total assets available.

Distribution income cannot be used for qualification if there is any knowledge or documentation indicating that the distribution will terminate within the next three years.

Assets accounts utilized to derive income (distributions) cannot be used for reserves or down payment, nor may income generated from the accounts (i.e., interest, dividends, capital gains) be used for qualifying in addition to distributions.

Distribution income from financial assets must be verified by providing all of the following:

- Year-end statements for the most recent year to evidence ownership and value of the assets,

- Written verification from the financial institution managing the assets to evidence that regular monthly distributions have been set up. It must provide the amount, frequency, and duration of the distributions.

- Most recent two months' statements for an account(s) utilized for distribution Qualifying Balances
- Checking/Savings: 100%
- Marketable securities: 100%
- Retirement assets: See Below

Any distribution setup must have 60 months of continuance.

Example: an applicant has $700,000 in qualified assets. The maximum distribution that can be utilized would be $8,333 per month ($100,000 per year).

Distributions from Retirement Accounts

Retirement assets may be set up for regular distribution payments and used as qualifying income. Regular distributions from retirement assets must be set up and one month's distribution received prior to closing. The distribution must have at least 3 years' worth of continuance at the time of closing based on qualifying balance. Discount retirement accounts by 30% to determine qualifying balance. The applicant utilizing this income must be of retirement age.

Income: Full Doc - Other Income Sources Annuity

Annuity income is acceptable with a copy of the annuity contract or letters from the organization providing the income. The income must continue for three years from the closing date. Provide one of the following showing receipt of the income:

- The most recent year's W-2s, 1099s, or Federal Income Tax Returns, or
- 3 months bank statements reflecting regular deposits of the annuity income and award letter

Income: Full Doc - Capital Gains

If capital gains income is customary for the applicant's occupation and/or the applicant has a constant turnover of assets resulting in gains or losses, capital gains may be considered as qualifying income. A two-year history of capital gains income/losses must be documented by obtaining copies of the applicant's signed federal income tax returns (Schedule D) to determine earning trends. If the trend results in a gain, it may be added as effective income, or consistently shows a loss, it must be deducted from the total income. The underwriter must be able to document that the Applicant has an "inventory" of assets to continue to sell in order to generate gains in the future. The assets in the "inventory" must be of the same classas the assets which were generating the gain(s) being utilized to qualify.

Example: FundLoans can consider the capital gains for an individual who purchase sold houses, remodels them, and sells them for profit.

Income: Full Doc - Interest/Dividends

Investment income may be used as stable monthly income. When markets are stable, documented earnings may generally be used. During periods of volatility or when verified earnings do not appear to be supported by current market conditions, the underwriter may use an earnings rate of 3%. To include interest or dividend income from a cash or marketable securities in qualifying income, the following guidelines will be used:

- The income has been received for the past two years as verified by taxreturns.
- Verification that the underlying cash deposits and/or securities still exist must be obtained within 30 days of closing,

Any required funds necessary for closing on the subject transaction must be subtracted prior to the calculation of interest/dividend income. If using the accounts for funds to close, impute a 3% return on the remaining assets with no amortization of the account balance.

Additionally:

- Year-to-date interest and dividend income should be averaged with the last two years as verified by the applicants' tax returns unless declining,

- Year-to-date earnings can be imputed by applying a realistic market rate of interest to the account balances and averaging over the number of months,
- Do not include margined securities in the calculation of interest/dividend income.
- Interest from pass-through tax entities (partnerships and S corporations) may be included provided the applicant can document they still own the interest producing the income in question

Income: Full Doc - K-1 Income

An Applicant who is relying on K-1 income from an entity as part of their qualifying income does not need to document a history of receipt of distributions from said entity to utilize the income to qualify. (Treat similar to retained earnings for a corporation). Applicants receiving an "over – distribution" (distributions in excess of K-1 Income) may utilize the entire distribution amount if the applicant's ownership share of the current assets are sufficient to pay the amount paid over the K1 income for the next 7 years. The company in question should have a current ratio of > 125% to qualify.

Income: Full Doc - Notes Receivable Income

Interest income from a note receivable can be used to qualify. The note must evidence continuance for at least three years. In order to include notes receivable income to qualify an applicant, he/she must provide:

- A copy of the note to establish the amount and length of payment (minimum three years), and
- Evidence that these payments have been consistently received for the last 12 months through deposit slips or canceled checks and tax returns.

If the applicant is not the original payee on the note, it must be established (typically via a copy of an Assignment of Note) that the applicant is now a holder in due course and able to enforce the note.

Income: Full Doc - Rental/Investment Property Income

Rental income can be utilized as qualifying income by applicants who own investment properties. The following are the acceptable methods of calculation.

Method One | Tax Returns Utilize the net figure on schedule E page 1 of the most recent year's tax return adding back depreciation, amortization, and interest claimed. Deduct the principal and interest, tax component of the mortgage payment(s) tied to the property (if any). Current property tax, property insurance, and homeowner's association dues expenses do not need to be documented if disclosed on the tax return (otherwise provide evidence of each).

Method Two | Lease Use 75% of current lease less documented PITIA (principal, interest, taxes, insurance, and homeowner's association dues). If the lease is materially greater than income listed on the tax return(s), the applicant to provide explanation/supporting documentation. Document current receipt of the lease income with evidence of the security deposit and the most recent one month's rent check, current tax bill, and current insurance premium/coverage.

The applicant does not need a history of managing properties in order to rely upon rental income. Any leases provided must be a minimum 12-month term. Short-term leases (Airbnb, VRBO, etc.) are acceptable provided a transaction printout or leases covering the most recent 12-month period are provided and averaged over 12 months. Gaps are acceptable; however, the leases will still be averaged over a 12-month period.

In the event, the subject transaction is a purchase transaction and the property Is not currently leased, monthly rental income can be obtained from Comparable Rent Schedule less 25% for vacancy factor.

Income: Full Doc - Rental Income from Applicant Occupied Property

The rent for multiple unit property where the applicant resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.

Projected rent for the tenant-occupied units only may be considered:

- Gross income, only after deducting 25% vacancy and maintenance factors, and
- Not to be used as a direct offset to the mortgage payment.

No management history is required.

Income: Full Doc - Income from Roommates in a Single-Family Property

Income from roommates in a single-family property occupied as the applicant's primary residence is acceptable. The rental income may be considered effective if shown on the applicant's tax return. If not on the tax return, rental income paid by the boarder may not be used in qualifying.

Income: Full Doc - Accessory Unit Rental Income

Rental income from an accessory unit may be utilized towards qualifying income. On a purchase transaction, the appraiser's opinion of market rent maybe utilized.

On a refinance transaction, the rental income must be listed on the applicant's tax returns AND supported by a lease unless the underwriter can justify reliance upon a lease alone.
In all cases, the appraiser must be able to verify with the building department that the accessory unit is "building permit" and allowed by current zoning

Income: Full Doc - Principal Residence Being Vacated by an Applicant

	Current Principal Residence – Pending Sales Options	
	Option 1: Departing Residence not Under Contract or Listed for Sale	Option 2: Departing Residence under Contract
Purchase Agreement	No contract required for the departure residence	A copy of an executed sales contract for the property pending sale
Multiple Listing / Open Market Sale	Signed letter of intent from the borrower indicating that they intend to list the departure residence for sale within 90 days of closing the subject transaction	The pending sale transaction must be arm's length
Equity Estimate	Equity in the departure residence must be documented with an Exterior-Only Inspection Residential Appraisal Report (FNMA Form 2055)	No appraisal required for the departure residence
Equity Test	Departure residence must have a minimum of 20% equity after deduction of outstanding liens. Please note: If the equity position is less than 20%, the full payment must be included in the borrower's qualifying DTI	The borrower must be netting positive proceeds from the sale of the property or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence
AdditionalReserves	Additional reserves for the departure residence are based on the marketing time indicated by the departure residence appraisal: -Marketing time of 6 months or less - 12 months of PITIA reserves -Marketing time of over 6 months - 24 months of PITIA reserves	No limit on LTV/CLTV, refer to the program maximum.
LTV Max on Subject	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.

	Current Principal Residence – Pending Rental Options	
	Option 1: Departing Residence not Under Lease	Option 2: Departing Residence under Lease
Establishing Fair Market Rents	Appraiser's Single-Family Comparable Rent Schedule (Form 1007)	Copy of fully executed lease & evidence of cleared/cancelled check for Security Deposit (Lease must begin before 1st payment due date on new subject property mortgage)
Net Rental Income Calculation	(75% of Appraiser's Market Rent estimate) minus (PITIA)	(75% of Monthly Rent reflected in Lease) minus (PITIA)
Application of Calculated Income / Loss	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Neg Rental Income but the monthly mortgage(s) debt obligation can be excluded	Income can be added to Borrower's Qualifying Income and the monthly mortgage(s) debt obligation can be excluded from the DTI ratio. Losses must be added to the Total Debt Obligations as Negative Rental Income but the monthly mortgage(s) debt obligation can be excluded
Additional Reserves Requirement	Additional Reserves requirement of 3 months of the Departing Residence PITIA	No additional Reserves requirement
Bridge Loan / Secured Borrowed Funds to Close	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above	If departing rental residence will also be used as security for loan proceeds used for down payment or cash to close - the new loan terms must be factored into the income calculations above
LTV Max on Subject	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.	Maximum LTV/CLTV on the subject transaction is 90% or the program maximum, whichever is less.

Income: Full Doc - Royalty/Lease Income (Other than Real Estate)

Lender must carefully consider the source and method in quantifying this type of income and develop a comfort as to its reasonableness and continuity. Royalty/lease income is found on Schedule E of the personal tax return.

To use royalty or lease income:

- Copies of the contracts or leases should be obtained. The payers of the leases/contracts should be identified,
- The income should have a two-year minimum track record,
- A two-year average of the income should be used unless declining, and
- Evidence of at least three (3) year continuance is required.

Income: Full Doc - Trust Income

Trust income is an acceptable source of income and can be verified via appropriate tax return documents (K-1 Statements, Schedule B, Schedule D, or Schedule E of the personal federal tax return) depending on the composition of the trust assets and provided all other verification documentation as required for trust income by FNMA section B3-3.1-09, Other Sources of Income

Trust account funds may be used for the required cash investment if the applicant provides adequate documentation that the withdrawal of funds will not negatively affect income. The applicant may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

Income: Full Doc - Alimony, Child Support, and Separate Maintenance Income

Generally, FundLoans requires proof of payment obligation for the past 6 months as evidenced by the divorce decree, a signed separation agreement, or a notarized agreement signed as is dictated by local custom. There must be an expectation of continuance for at least three years from the closing date in order to utilize the income.

Alimony, child support, or maintenance income may be considered effective, if:

- Payments are likely to be received consistently for the first three years of the mortgage,
- The applicant provides the required documentation, which includes one of the following:
    - Final divorce decree,
    - The legal separation agreement,
    - Court order, or
    - Voluntary payment agreement; and
        - The applicant can provide acceptable evidence that payments have been received during the last 6 months, such as:
            - Canceled checks,
            - Deposit slips,
            - Tax returns, or
            - Court records.

Notes: Child support may be “grossed up” by 25% under the same provisions as non-taxable income sources.

Income: Full Doc - Automobile Allowance and Expense Account Payments

An automobile allowance may be included in qualifying income provided evidence of receipt for is verified via one of the following: written verification is received from the employer, or paystubs reflecting receipt and Employer verification that the payments will continue.

The full amount of the allowance is added to the applicant's monthly income, and the full amount of the lease or financing expenditure for the automobile is added to the applicant's total monthly obligations.

Income: Full Doc - Disability Income

Disability income may be included as qualifying income provided the applicant's current eligibility, including the amount and terms of the disability payment income, is verified through a copy of the awards letter, or other verification provided by the employer, insurance company, or government agency (e.g., Social Security Administration, Department of Veterans Affairs).

The underwriter may not request any medical documentation or make any inquiry regarding the nature of the disability or its duration. Any discussion regarding an applicant's disability should be limited to a request for the above-required documentation.

Income: Full Doc - Foster Care Income

Foster care income may be included as qualifying income provided: proof of receipt for the previous 24 months and the income for providing foster parent care services to foster children is paid to the applicant by a governmental agency and is verified by copies of checks or contracts/agreements with the governmental agency.

A month-to-month reconciliation of the number of foster care cases in place each month must be provided. Qualification income will be computed considering the average number of foster care placements, the current number of placements, and the income per placement.

Income: Full Doc - Government Assistance Programs

Income received from government assistance programs is acceptable as long as the income has been received for the previous 24 months and the paying agency provides documentation indicating that the income is expected to continue for at least three years. Copies of checks, award letters, or grant statements are acceptable documentation.

Income: Full Doc - Mortgage Credit Certificates

If a government entity subsidizes the mortgage payments either through direct payments or tax rebates, these payments may be considered as acceptable income. Either type of subsidy may be added to gross income or used directly to offset the mortgage payment, before calculating the Qualifying Ratios.

Income: Full Doc - Homeownership Subsidies

A monthly subsidy may be treated as income if an applicant is receiving subsidies under the housing choice voucher home ownership option from a public housing agency (PHA).
Although a continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three years.

If the applicant is receiving the subsidy the amount received is treated as income, even if paid directly to the servicer. The amount received may also be treated as nontaxable income and be "grossed up" by 25 percent, which means that the amount of the subsidy, plus 25 percent of that subsidy may be added to the applicant's income from employment and/or other sources.

Income: Full Doc - Retirement/Pension Income

Retirement income must be verified from the former employer, custodian, or federal tax returns. If any retirement income will cease within the first full three years of the mortgage loan, it may not be used in qualifying.

Retirement income and/or pension income must be verified using one of the following options: Written verification from the financial institution holding the assets/organization/company supplying the income,

- Copy of most recent award letter,
- Copies of the most recent 3 months check stubs evidencing consistent receipt of the income
- Copies of the most recent 3 months bank statements that verify receipt of the direct deposit,

*1099's, tax returns, or transcripts are not required to prove retirement/pension income when one of the options above is supplied.

Income: Full Doc - Social Security Income

Social Security income must be verified with the Social Security Administration or on Federal tax returns. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying. Any portion of the Social Security Income which is non-taxable can be grossed up by 25% (subject to the taxable portion shown on most recent 1040s).

Social Security income can be used as qualifying income provided the income is verified via one of the following:

- A copy of the Social Security Administration Award Letter,
- 3 months bank statements that verify receipt of the benefits via direct deposit,
- 3 months most recent check stubs,
- Most recent 2 year's 1099 tax forms, or
- Most recent 2 years' personal tax returns. Social Security income is found on the front page of the personal tax return.

The following suffixes to the social security number will indicate what type of social security benefit is being received:

Suffix Description:

- A- Disability or retirement benefit
- B- The person is still alive, and the spouse is receiving the benefit
- C- Child beneficiary
- D- The person is deceased, and the surviving spouse is receiving the benefit

*1099's, tax returns, or transcripts are not required to prove social security income when one of the options above is supplied.

Income: Full Doc - Supplemental Security Income

Supplemental Security Income may be included as qualifying income provided verification can be obtained by one of the following:

- A copy of the awards letter,
- 3 months bank statements that verify receipt of the benefits via direct deposit, or
- 3 months most recent monthly disbursement checks.

Continuance of at least three years for Supplemental Social Security Income for “child beneficiary” must be evidenced. If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Income: Full Doc - Unemployment Compensation

Unemployment compensation (such as that received by seasonal workers) may be considered as acceptable stable income provided it is properly documented, has been:

- received for the past two years and
- is predictable and likely to continue.

Unemployment income is found on the front page of the personal tax return.

Income: Full Doc - Veterans Benefits

Veterans’ benefits, other than educational assistance, can be included as qualifying income provided the income is verified via one of the following;

- a letter or distribution form or a Statement of Earnings from the Department of Veterans Affairs (VA).
- Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided that lender obtained documentation from the VA.
- Education benefits used to offset education expenses are not acceptable.

If any benefits expire within the first full three years of the loan, the income source may not be used in qualifying.

Income: Full Doc - Temporary Leave Income

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the applicant's employer. Applicants on temporary leave may or may not be paid during their absence from work.

If the underwriter is made aware that an applicant will be on temporary leave at the time of closing of the mortgage loan and that the applicant's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below:

- The applicant's employment and income history must meet standard eligibility requirements as described above.
- The applicant must provide written confirmation of his or her intent to return to work.

Document the applicant's agreed-upon date of return by obtaining verification either from the applicant or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave). See FNMA's Selling Guide for examples of acceptable documentation. This documentation does not have to comply with the Allowable Age of Credit Documents policy.

The lender must receive no evidence or information from the applicant's employer indicating that the applicant does not have the right to return to work after the leave period.

The lender must obtain a verbal verification of employment. If the employer confirms the applicant is currently on temporary leave, the lender must consider the applicant employed.

The lender must verify the applicant's income in accordance with the other provisions of this guide. The lender must obtain the amount and duration of the applicant's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period and "regular employment income." The latter may include but is not limited to, the income the applicant receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

[Note: Income verification may be provided by the applicant, by the applicant's employer, or by a third-party employment verification vendor.]

Requirements for Calculating Income Used for Qualifying

- If the applicant will return to work as of the first mortgage payment date, the lender can consider the applicant's regular employment income in qualifying.
- If the applicant will not return to work as of the first mortgage payment date, the lender must use the lesser of the applicant's temporary leave income (if any) or regular employment income. If the applicant's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. [NOTE: that these reserves would be in additionto any other reserves required under this guide. Following are instructions on how to calculate the "supplemental income":]

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

Total qualifying income = supplemental income plus the temporary leave income

Available liquid reserves = subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount. The number of months of supplemental income: the number of months from the first mortgage payment date to the date the applicant will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income. The total qualifying income that results may not exceed the applicant's regular employment income. The same assets utilized to meet the liquid reserve requirement for this section may not be used for asset distribution.

Income: Full Doc - Other Income

Other income sources, whether taxable or non-taxable, must be verified unless otherwise indicated in the specific Product Profile. Non-taxable income should be distinguished from non-reported income as non-taxable income sources are not taxed, the "value" to the applicant is greater. Unless otherwise noted, all non-taxable income sources may be grossedup by a factor of 25% provided the non-taxable status of the income is verified. All sources of income included in the loan qualification must be stable, with a reasonable expectation that atleast the same level of income will continue to be received for a minimum of three years.

Provided there is no evidence that the income source will cease within the next three years, it can be reasonably assumed that the income will continue. In no case can income be used forqualification if there is any knowledge or documentation indicating that the income will terminate within the next three years.

Income: Full Doc - Unacceptable Sources of Income

Examples include, but are not limited to, the following:

- Temporary or non-recurring income
- Educational Benefits
- Trailing Spouse income
- Income that cannot be verified, is not stable or will not continue.
- Non-reported income (also known as undocumented income) cannot be used as a qualifying income source.
- Gift income, even if received on a regular and ongoing basis, is not eligible income.

Income: Full Doc - Tax Transcripts

The W-2's, 1099's, and tax returns provided by an applicant must be verified by the IRS. In the event the most recent year's information cannot be verified due to a recent filing, the income may be considered in accordance with the Full Documentation guidelines with the following documentation:

- Previous year's (or two years') W-2's, 1099's, and or tax returns
- Previous year's (or two years') W-2's, 1099's, and tax returns or transcripts
- In the case of tax returns, proof of electronic filing or stamped copy showing received by the IRS in the case of tax returns, proof of payment of any liability due
- In the case of tax returns, if for a self-employed applicant a substantial increase in income is sought to be utilized for qualifying the applicant, an explanation must be provided.
- Documentation to substantiate the income shown on the returns, such as a licensed/certified tax preparer audited profit and loss statement or 12 months business bank statements must be provided.

When FundLoans is unable to process IRS transcript orders due to IRS backlogs or office closures, borrowers may generate the transcripts via MyIRS.gov

Income: Asset Allowance and Assets Only - Overview

Asset Allowance and Assets Only differ from Asset Distribution (See "Income Full Doc – Asset Distributions") because Asset Distributions are income distributions already set in place by the borrower via a written agreement with the asset manager and can electively payout faster than the time frames dictated by Asset Allowance and Assets Only, so long as continuance is confirmed for a minimum of 3 years.

The Asset Allowance option permits an underwriter to use an applicant's liquid assets to augment income for loan and product qualification purposes without creating a written distribution agreement, so long as the allowance given meets a 60-month continuance test. When using Asset Allowance, the combination of income from liquid sources, such as: self-employment, rental income, retirement funds, allowances, or distributions from liquid assets should be enough to meet total minimum monthly obligations. Asset Allowance can be used as a supplement to a combination of incomes from liquid sources (supplemental) or Asset Allowance may be used as the sole source of income (stand-alone) the requirements and documentation are the same for both applications.

The Assets Only option permits an underwriter to use the applicant's assets (that significantly exceed present financial needs) to be the sole source of affirming the Ability to Repay.

Income: Asset Allowance & Assets Only – Qualifying Methods

<u>Asset Allowance</u>: Qualifying income derived by using the Total Assets Eligible for Depletion (minus down payment minus out-of-pocket closing costs minus required reserves) divided by 60 months. Maximum DTI 50% when dividing total obligation by income from all sources.

<u>Assets Only:</u> Qualified assets after closing must be sufficient to cover the new loan amount, down payment, and closing costs.There is no debt ratio calculation required. Not allowed for Texas A6 transactions.

Income: Asset Allowance - Description

Applicants may utilize asset allowances as additional qualifying income. Assets based on the following stated percentages of present values (listed below) may be divided by 60 months. To determine assets that can be amortized, deduct funds to close, closing costs/pre-paids, and reserves required by the product requirement. Gifted funds from an allowable source (see Full Doc Assets Section) may not be included in the amounts being amortized unless seasoned 90 days prior to the date of application.

Qualifying balances are determined as follows:

- Checking/savings: 100%
- Marketable securities (no options or unvested RSUs): 100%
- Retirement funds-70% of accessible funds unless the applicant is of retirement age, then use 80% of accessible funds. If utilizing a retirement account, document the applicant's ability to access the funds.

Income: Asset Allowance – Restrictions

- Non-occupant co-borrowers not allowed;
- Max 50% DTI;
- Minimum 660 credit score;

(See Matrices for acceptable credit grades, max LTV and DTI)

Income: Asset Allowance – Documentation

All individuals listed on the asset account(s) must be on the Note and Mortgage. Assets considered for this program must be verified with the most recent 3 months of account statements or a VOD evidencing at least 120 days seasoning.

Income: Asset Allowance – Ineligible Assets

- Equity in real estate or proceeds from recent sale of real estate
- Privately traded or restricted/non-vested stocks;
- Any asset which produces income is already included in the income calculation.
- Crypto currently not converted into U.S. dollars or held in U.S. or state-regulated financial Institution

Income: Assets Only – Description

In the program, applicant qualification is determined based solely on the strength of the applicant's assets which must be liquid (or maybe liquidated without restriction). No income or employment needs to be verified. No DTI is developed for this program. Non-occupant co-borrowers are not allowed.

Total liquid assets must meet the sum of the below:

- 100% of the subject property loan amount
- Closing costs and prepaids

60 months of net loss on any personally vested non-subject property including primary residence, 2nd homes, and residential rental real estate properties.

Income: Assets Only -Eligible Asset Types

Income Calculation Eligible Asset Types Assets are determined based on the calculation below:

- Checking, savings, and cash equivalents-100% of the face value
- Marketable securities (excludes unvested RSUs and Stock options)-100%
- Retirement funds-70% of accessible funds unless the applicant is of retirement age, then use 80% of accessible funds. If utilizing a retirement account, document the applicant's ability to access the funds.

Any loans secured against financial assets being used for asset qualification will be netted against the asset's value before application of discount.

Income: Assets Only - Documentation

The most recent 6 months of statements must be provided for any account that will be utilized for asset qualification. The statements must be analyzed for deposit activity. Any deposit greater than 10% of the face value of the account of the most recent statement must be sourced and documented.

Business accounts used for funds to close should follow standard asset requirements. Gift funds do not need to be seasoned any longer than would be required under standard asset requirements. Gift funds may be utilized for funds to close a purchase only. Any deposits which cannot be sourced will be deducted from the end value of the account.

Residual Income is not required for the Assets Only program

Income: Assets Only - Ineligible Asset Types

The following asset types are ineligible for use under the Assets Only program:

- Business funds (may be used for funds to close if the business is not negatively impacted). Large deposits sourced from business funds after being transferred to a personal account need only be seasoned 60 days (versus 6 months for all other assets)
- Non-liquid assets (automobiles, artwork, business net worth, etc.)
- Face value of life insurance. The cash value of a vested life insurance policy is allowed at 100%. When used for reserves the cash value must be documented but does not need to be liquidated or received by the applicant.
- Annuities of any type (allowed on an exception basis, if an annuity can be reliably converted to a cash value by a 3rd party annuity purchaser)
- Unvested restricted stock
- Stock options, unless exercised and converted to publicly traded stock prior to closing
- Crypto currently not converted into U.S. dollars or held in U.S. or state-regulated financial Institution

Income: Assets Only - Rental Property Calculation

Rental properties are counted on a net basis based on 75% of lease less PITIA to determine the impact on debt service. Net rent can never exceed $0 for determining impact. For example:

- A property with a lease of $1,600 and PITIA of $1,500 would have $300 per month added to debt service ($1,600 x 75% less $1,500=-$300).
- A lease of $2,400 and PITIA of $1,500 would have $0 per month added to the debt service ($2,400 x 75%=$1,800 less $1,500= $300). Since the result is greater than $0, nothing is added to the debt service. Each property is counted separately.

PROPERTY ELIGIBILITY

Property Eligibility: Appraisals

Full Interior / Exterior appraisal(s) are required.

FORM	PURPOSE
Uniform Residential Appraisal Report (Form 1004)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory apartment) based on interior and exterior property inspections.
Individual Condominium Unit Appraisal Report (Form 1073)	For appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.
Small Residential Income Property Appraisal Report (Form 1025)	For appraisals of two- to four-unit properties (including two- to four-unit properties inPUD, condo, or co-op projects) based on interior and exterior property inspections.
Appraisal Update and/or Completion Report (Form 1004D)	For appraisal updates and/or completion reports for all one- to four-unit appraisal reports.

Transferred appraisal is allowed if proof of AIR compliance has been met and a satisfactory transfer letter from the previous lender is provided. FundLoans, at its discretion, can require additional appraisal products.

A licensed appraiser is required to perform an interior inspection when completing the appraisal report. The appraisal must be done within the 120 days that precede the date of the note and mortgage. When an appraisal report will be more than four months old on the date of the note and mortgage, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.
This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D). The appraisal update must occur within the four months that precede the date of the note and mortgage.

If the appraiser indicates on Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.

If the appraiser indicates on Form 1004D that the property value has not declined, then the lender may proceed with the loan in the process without requiring any additional fieldwork.

Regardless of state, FundLoans policy is to require appraisals to include photos of smoke detectors. CO2 detectors are required as noted by the Appraiser on the appraisal.

Property Eligibility: Exhibits for Appraisals

Exhibit	Requirements
Building sketch and calculations	An exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived. If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Maerequires a floor plan sketch that includes the interior walls. For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable).
Streetmap	Showing the location of the subject property and the comparables that the appraiserused.
Exterior photographs	Clear, descriptive photographs showing the front, back, and street scene of the subjectproperty and the front of each comparable. The subject and all comparables must be appropriately identified. Acceptable photographs include original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files. Photographs of comparable rentals utilized in the *Small Income Residential AppraisalReport* (Form 1025) are not required.
Interior photographs	At a minimum, the report must include photographs of the following: the kitchen; all bathrooms; main living area; examples of physical deterioration, if present; and examples of recent updates, such as restoration, remodeling, and renovation, if present. **Note**: Interior photographs on proposed or under construction properties may be taken by the appraiser at the time of the inspection for the Certification of Completion and providedwith the Form 1004D.
Appraisal Update and/or Completion Report (Form 1004D)	At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.

Single-Family Comparable Rent Schedule (Form 1007)	Required if the property is a one-unit investment property and the borrower is using rentalincome to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See A3-4-02, Data Quality and Integrity.)

Property Eligibility: Collateral Desk Assessment

For each property with a proposed loan amount of less than $2MM, FundLoans will order a Collateral Desk Assessment (CDA) to independently support the comparable property selection, adjustments to value, and market value conclusions of the original appraiser.
Additional supporting information may be requested of the original appraiser based on feedback from the CDA prior to final loan approval.

If the CDA reflects a value more than 10% below the appraised value or cannot provide validation, a second appraisal will be required. The second appraisal must be from a different appraisal company than the first and a different appraiser than appears on the original appraisal.

Property Eligibility: Second Appraisal

A Second Appraisal will be required when:

- Loan Amount exceeds $2,000,000
- The transaction is a flip as defined in the Property Flipping section of this guide

If a second appraisal is not provided from an approved FundLoans AMC then an AIR compliant appraisal may be accepted on a case-by-case basis. FundLoans, at its discretion, can request an additional Appraisal Product.

When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the two appraisals

Property Eligibility: Ineligible Properties

Properties not eligible for FundLoans funding:

1. Properties for which the appraisal indicates:
    - Condition ratings of C5 or C6
    - Quality ratings of Q5 (case-by-case basis) or Q6
2. Rural Properties (On a case-by-case basis only):
    - Greater than 20 acres
    - Rated "Rural" or less than 40% Single-Family or area < 25% built-up
    - 2 of first 3 Comps > 5 miles away from the subject property
    - Sand and Gravel frontage road and lack of public water and sanitation
    - Marketing Times more than 220 days with Single Digit sales per quarter

    NOTE: FundLoans will consider a property despite being flagged as "Rural", "Farm" or "Agricultural" Zoning if the property is a) less than 5 acres b) an SFR with no excessive outbuildings (example: Industrial / Warehouse type storage buildings, multiple homes or manufactured housing units, quasi-commercial improvements, silos and/or farm buildings notconverted to residential use) and c) Located within a 45 -mile radius of the Central Business District of a Top 40 Metropolitan Statistical Area as noted here: https://en.wikipedia.org/wiki/List_of_metropolitan_statistical_areas

3. Properties with square footages below practical norms:
    - SFR: 700 Sq. Ft

- Condo Unit: 500 Sq. Ft
- 2-4 Family Living Unit: 400 Sq. Ft per Unit (Exceptions can be made on case-by-case bases if the unit has a fully functional kitchen – sink, full-size stove & refrigerator, sufficient cabinet space, AND enclosed full bathroom)

4. Mixed-Use Properties
5. Vacant Land (including blanket mortgages of residence on lot included with additional buildable vacant lots)
6. Agricultural properties that accommodate existing farms, ranches, orchards
7. Manufactured, Mobile, or Modular Homes
8. Assisted Living Facilities (if residential in nature then on a case-by-case basis, max 65% LTV)
9. Properties with zoning violations (unless granted permissible use permit), non-building permitted additions without code compliance clearances. FundLoans willconsider a purchase if the issue has been corrected prior to loan funding with proper documentation.
10. Geodesic dome homes
11. Houseboats
12. Log Cabins / Log Homes
13. Homes on Native lands (or any parcels with restrictions on reconveyance and/or limits on the legal enforcement of foreclosure rights)
14. Properties in Lava Zones 1 or 2
15. Properties used for the cultivation, distribution, manufacture, or sale of marijuana
16. Co-ops (Cooperative Housing)

Property Eligibility: Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal.

If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Property Eligibility: Escrow Holdbacks

FundLoans will not typically fund any loan with an escrow holdback unless a repair is projected to be very short term (completion 2-3 weeks after Note date). In those instances, bids for the proposed repair are required, 1 ½ time the cost must be held in a repair escrow fund to be held by the settlement agent until a Form 1004 D inspection confirms thecompletion of the work and any/all mechanics liens are satisfied. Originator compensation will be held back until escrow release.

Otherwise, any repair or maintenance required by the appraiser must be completed prior to loan funding.

Property Eligibility: Accessory Dwelling Units

An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.

The following describes the requirements for classifying an ADU.

- ADU's are only permitted on one-unit properties and are not permitted with any two-four unit property.
- The ADU must:
  - be subordinate in size to the primary dwelling.
  - have the following separate features from the primary dwelling:
  - means of ingress/egress,
  - kitchen,
  - sleeping area,
  - bathing area, and
  - bathroom facilities.
- The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.
- The kitchen must, at a minimum, contain the following:
  - cabinets;
  - a countertop;
  - a sink with running water; and
  - a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes).
  - An independent second kitchen by itself does not constitute an ADU.

  NOTE: The removal of a stove does not change the ADU classification.
- Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property.

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The appraisal requirements related to zoning for an ADU are met. See FNMA Section B4-1.3-05.

Multiple ADUs:
On a case-by-case basis and subject to additional pricing overlays, if any, a one-unit property containing multiple ADUs is eligible under the following conditions:

- The property is defined as a one-unit property;
  Whether a property is defined as a one-unit property with an accessory unit or a 2+unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. See FNMA Section B4-1.3-05, Improvements Section of the Appraisal Report for additional ADU appraisal requirements.
- Each ADU meets the requirements of the preceding section;
- Zoning permits multiple ADUs;
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use and same number of ADUs as the subject, and lender can verify the ADU is:
  - a.) legal (per building code); and
  - b.) may legally be rented (permissible use – zoning).

ADU rental income, when allowed to be used under Income sections of these guidelines, must be documented on FNMA Form 1007 in addition to any other requirements hereunder (copy of the current lease, two (2) months proof of receipt of rent, etc.).

Unpermitted ADUs may exist on a property but must be given no value in the appraisal, and rental income from the unit will not be considered.

Property Eligibility: Location

(See FundLoans website for current State Licensing)

Property Eligibility: Property Flipping

For properties acquired by the seller of the property within 6 months of the new contract date where the contract price exceeds the seller's acquisition price by the following:

- More than a 10% price increase if the seller acquired the property in the past 90 - days;
- More than a 20% price increase if the seller acquired the property in the past 91-180 days

The following additional requirements apply:

- A second appraisal is required from a FundLoans Approved AMC, (The second appraisal must be provided to the borrower in accordance with either the ECOA or HPML requirements, whichever applies)
- A Second appraisal must be dated/delived prior to the loan consummation/ note date. Property seller on the purchase contract must be the owner of record;

Increases in value should be documented with commentary from the appraiser and recent comparable sales. Sufficient documentation to validate actual cost to construct orrenovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.)

Property Eligibility: Leasehold Properties

In areas where leasehold estates are commonly accepted (as corroborated via the Appraisal), loans secured by leasehold estates are eligible for funding.

The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy. All leaserents, other payments, or assessments that have become due must be paid. The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

Seller must provide documentation and Leaseholds must meet all eligibility requirements below:

Lease and Lender Requirements	
	The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless fee simple title will vest at an earlier date in the borrower.
	The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimitednumber of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, orsublessee.
	The lease must provide for the borrower to retain voting rights in any homeowners' association.

	The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he orshe is paying on the improvements.
	The lease must be valid, in good standing, and in full force and effect in all respects.
	The lease must not include any default provisions that could give rise to forfeiture or termination of thelease, except for nonpayment of the lease rents.
	The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
	The lease must provide lenders with the right to receive a minimum of 30 days' notice of any default by the borrower, and the option to either cure the default or take over the borrower's rights under the lease.

Leasehold review by FundLoans' Legal Department.

Property Eligibility: Disaster Area Declarations

FundLoans and its Brokers share responsibility for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected.

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at: http://www.fema.gov/news/disasters.fema.

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

Appraisals Completed Prior to End of Disaster Declaration (Loans not yet funded): An interior and exterior inspection of the subject property, performed by the original appraiser if possible, is required. The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.

An inspection report must include photographs of the subject property and street view. Any damage must be repaired and re-inspected prior to funding.

Appraisals Completed After the End of Disaster Declaration (Loans not yet funded): Appraiser must comment on the adverse event and certify that there has been no effect on the Marketing Addendum data that could impact the valuation in the near future. Guidelines for disaster areas should be followed for 90-days from the disaster period end date or the date of the event, whichever is later.

Disaster Occurs After Loan Signing but Prior to Funding: The loan is ineligible for funding until the disaster is declared "ended" by FEMA and an inspection is obtained using one of the following options:

- A Post Disaster Inspection (PDI) Report from Clear Capital or
- The equivalent from another AMC vendor

Any indication of damage reflected on the report will require a re-inspection by the appraiser.

The appraiser may perform an inspection (Fannie Mae Form 1004D) and comment on the event and certify that there has been no change to the value.

Property Eligibility: Condominiums

Condominium Project Types Defined:

Project Type	Criteria
New condo project	A project for which one or more of the following is true: >Fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exceptionnoted in the row below); Or >Project is not fully completed, such as proposed construction,new construction, or the proposed or incomplete conversion ofan existing building to a condo; >Project is newly converted; >Project is subject to additional phasing or annexation; or >HOA still in the developer's control.
Established condo project	A project for which all of the following are true: >At least 90% of the total units in the project have beenconveyed to unit purchasers; >The project is 100% complete, including all units and common elements; >The project is not subject to additional phasing or annexation;and >Control of the HOA has been turned over to the unit owners. A project may also be treated as an established project with lessthan 90% of the units sold to unit purchasers, provided the project has achieved an 80% sold/closed ratio in 18 months or less since Occupancy Certificates were issued. The following requirements must be met: >Construction is 100% complete; >Project is not subject to any additional phasing or annexation,and the HOA is projected to be turned over to owners in less than 6 months >HOA fees are paid current in all non-developer-held units; and >No active or pending special assessments in the projectOr >At least 75% of the total units in the project have beenconveyed to unit purchasers and LTV is 50% or less
Detached (site) condo project	A project comprised solely of detached units

Requirements Applicable to All Condominiums:

- Requirements specific to the project review method used to determine that project's eligibility;
- Property eligibility requirements (described in Property Eligibility sections);
- Priority of common expense assessments (described below);
- When an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in the Property Eligibility section); and
- Fannie Mae insurance requirements for Liability, Fidelity/Crime and Hazard Insurance Requirements for the HOA and the individual units

Priority of Common Expense Assessments

FundLoans allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has

- The Uniform Condominium Act,
- The Uniform Common Interest Ownership Act, or
- A similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by FundLoans.

If the condo or PUD project...	Then...
is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over FundLoans' mortgage lien for amaximum amount greater than six months,	the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over FundLoans' mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for FundLoans' requirements, then no more than six months of regular common expense assessmentsmay have priority over FundLoans' mortgage lien.
is located in any other jurisdiction,	no more than 12 months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even ifapplicable law provides for a longer priority period.

Condominium Review Types

FundLoans follows FannieMae's Review Types. Please refer to Fannie Mae's single-family guidelines for project review requirements.

Ineligible Projects

- A project subject to the rules and regulations of the U.S. Securities Exchange Commission.
- Timeshare or Projects that restrict the owner's ability to occupy the unit.
- New Condo conversion completed less than 2 years.
- Houseboat project
- Manufactured home projects
- Assisted living facilities or any project where unit owners contract in advance for

  a lifetime commitment from the facility to care for them regardless of future health or housing needs.
- Any project in which a single entity owns more than 25% of the total number of units (Projects that have 5-19 Units, one owner can own two units)
- Multi-family units where a single deed has ownership of more than one or all of the units.
- Project where more than 50% of total square footage in the project or in the building that the project is located in is used for non-residential purposes
- Fragmented or segmented ownership (limited to a specific period on a recurring basis i.e., Timeshare)
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA
- Non-conforming zoning (can't be rebuilt to current density).
- Project units sold with excessive Seller contributions that may affect the resale value of the subject property
- Any project that requires Private Transfer Fees as a part of the transaction and that fee does not benefit the association

- Project in litigation, arbitration, mediation, or other dispute regarding safety, soundness, or habitability.
- Project with adverse environmental issue(s) involving safety, soundness, or habitability.
- Projects that are not well managed or in poor physical or financial condition w/ obvious neglected repairs
- Projects with excessive special assessments (in excess of 200% of comparable projects dues/assessments combined)

Non-Warrantable Condos Reduction

Non-Warrantable Condo Limits: 5% below matrix LTV with more than two condo exceptions

Features	Requirements
Commercial Space	• 50% Allowed (FNMA 35%)
HOA Control	• 80% Investment allowed (FNMA 50%) • Unlimited for primary residence and second home
Single Entity Ownership	• 25% allowed (FNMA 20%)
Reserves	• 7% of the budget must be for the funding of replacement reserves for capital expenditures and deferred maintenace (FNMA 10%)
HOA Dues	• No more than 20% can be 60 days or more past due. (FNMA 25%)
Other	• Considered on a case-by-case basis

BUDGET AND RESERVE FUND BALANCE: A minimum of 10% of the association's annual budget should provide for funding of replacement reserves for capital expenditures and deferred maintenance. If not, a lower percentage of annual income may be considered if the appraisal notes no major repairs and Reserve Fund balance supports a lower allocation as follows:

- 7% to 9.99% requires a Reserve Fund balance of 50% of annual budget
- 5% to 6.99% requires a Reserve Fund balance of 75% of annual budget
- 3% to 4.99% requires a Reserve Fund balance of 100% of the annual budget

CREDIT

Credit: US Citizens – Standard Tradelines

A Residential Mortgage Credit Report (RMCR) attempting to request information from all three credit bureaus is required for each borrower. At least 2 of the 3 credit bureaus must report information or the borrower must be treated as having a Non-Traditional Credit profile. The credit report should include the results of public record searches for each city where the individual has resided in the last 2 years.

Standard Tradelines - Each borrower must have:

- 3 tradelines w/ at least 12 months reviewed, and activity reported in the past 12 months OR
- 2 tradelines w/ at least 24 months reviewed, and activity reported in the past 12 months

Valid tradelines have the below characteristics:

- The credit line must be reflected on the borrower's credit report and may include self-reported utilities
- The account must have activity in the last 12 months but may be open or closed
- An acceptable 12 or 24-month housing history not reporting on credit may also be used as a tradeline (VOR with credit supplement and may come from either a private party or property management company).

Credit: US Citizens – Unacceptable Tradelines

Examples of unacceptable tradelines include:

- Loans in a deferment period (Student loans can be counted as tradelines as long as they are in repayment and are not deferred)
- Collection or charged-off accounts,
- Accounts discharged through bankruptcy, and
- Authorized user accounts (unless evidence is provided that 24 consecutive payments have been made directly to the creditor by our borrower via canceled checks/autopay/ACH records)
- Foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales
- Any account currently 90 days late

Credit: US Citizens – Limited Tradelines

If Standard Tradelines requirements are not met and the borrower has a valid credit score per the Credit Score section of this guide the following restrictions apply:

- Max LTV/CLTV of 75%
- A 10% down payment has been made by the applicant from their own resources
- Primary residences only
- Not allowed Asset Depletion doc types

Credit: US Citizens – Married Borrowers Unmarried Joint Applicants

For married applicants, only the primary wage earner needs to meet the tradeline /FICO standards.

Unmarried joint applicants who meet at least two of the three below criteria may be treated as spouses for determining compliance with the trade line requirements (within the meaning of Section 7.1)

- Reside together for at least two years,
- Hold at least one joint tradeline, and
- Jointly hold asset accounts

Credit: Ineligible Applicants

Ineligible applicants include:

- ITIN Borrowers
- Irrevocable Trust
- Land Trust
- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to a transaction listed on HUD's

  Limited Denial of
- Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party-list, or any other exclusionary list.
- Business (will vest in business name with Personal Guaranty only)

Credit: Social Security Number

A valid Social Security Number is required for all Borrowers with US Citizenship and Permanent Resident Aliens.

Credit: FICO Score Method by Doc Type

The indicator score of the primary income earner is used as the Representative Credit Score for each loan. Select the middle score when 3 agency scores are provided and the lower score when only 2 agency scores are provided. An applicant's documented income may not be excluded to manipulate the primary income-earner on a file. The primary wage earner must have a valid score from at least 2 of the following 3 agencies: Experian (FICO), Trans Union (Empirical), and Equifax (Beacon). Only scores from these agencies are acceptable. Credit score codes should be consistent with tradeline information and use. Credit scores that do not appear to represent an accurate assessment of the borrower's credit risk will not be considered valid and usable. Additional borrowers on the loan must have at least one valid score of 600 or greater.

• Asset Allowance: Generally, use the lowest middle score on the file. If one applicant is providing 75%+ of the assets for the subject transaction, including funds to close and all post-closing reserve requirements, in accounts that are either solely in their name or jointly with persons who are not applicants on the transaction, then they are deemed to be the primary asset contributor and their FICO may be used for guideline purposes.

• Assets Only – Same as Asset Allowance

A gap report is required and should be dated within 10 business days of the Note date.

Credit: Rapid Rescore

Rapid Rescores of credit are permitted to confirm the effect of pay down/ payoff of debt, the correction of reporting errors, the impact of additional months of payment rating/account aging. The updated credit scores will be used whether the score has improved or declined.

If the generation of a new credit report (and resulting revision to FICO scores) is more convenient for the borrower following the processing of debt pay down or payoff, a newly updated credit report can be substituted for the original credit report.

Credit: Accounts Not Appearing on Credit Reports

Accounts that are not verified on the credit report must be verified with either a written direct verification or an acceptable alternative.

- Private Mortgage Ratings:
  - Subject Mortgage - Cancelled Checks or month-by-month Servicing Ledger /Pay History
  - Non-Subject Mortgage: Written Verification of Loan
- Professional Rental Property Manager: Written Verification of Rent
- Property Owner Managed Rental:
  - For current residence – up to 12 months Cancelled Checks and Copy of Lease
    - If 12 months canceled checks cannot be provided, an Owner Managed Written Verification of Rent is allowed provided the following:
      - Minimum 660 credit score
      - LTV reduction of 5%

  For prior residence – Written Verification of Rent completed by Property Owner
- Non-Reporting Installment/Revolving Debt: Written Verification of Loan
- Asset-secured Loans: Copy of consecutive statements showing payment postings

Credit: Housing Expense

Housing and mortgage-related obligations include property taxes, premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments.

All properties personally vested in the applicant's name must be fully documented with regard to housing obligations including:

- Mortgage balances and pay histories
- Property taxes
- Insurance premiums (Hazard, Flood, Earthquake, Lava Flow)
- Homeowners Association Dues and
- Charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments.

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

Credit: Housing Payment History

Each loan application must include a fully documented, recent, consecutive, 24-month housing historyand provide mortgage/housing payment history for a minimum of the 12 months leading up to the application date. On non-owner occupied transactions, a mortgage/housing history is required on thesubject property as well as the primary residence and any other properties the borrower owns.

0X30x12 is the expected payment history on any mortgage/rent in the past 12 months for all borrowers combined for prime borrowing. (See matrices for credit grading with mortgage lates.)

If there are multiple borrowers on the loan, only one of the borrowers must have a primary housing history, however, a non-occupant co-borrower history may not be used to satisfy this requirement

If a property is owned free and clear and the applicant is current with real estate taxes, insurance, and/or HOA dues, the mortgage/housing history will be treated as 0x30x24 for credit grade determination.

Credit: Verification of Mortgage

The following are acceptable for verifying mortgage payments:

- A current credit bureau report or credit supplement
- An institutional Verification of Mortgage (VOM)
- Images of canceled checks (front and back)
- Bank statements showing ACH transaction

For private mortgages see: Credit: Accounts Not Appearing on Credit Reports

A combination of mortgage and rent verification may be provided to complete a 12-month housing payment history. When the borrower moved from rental to ownership a gap month is acceptable from the end of the rental period to the first payment due date, if applicable.

Credit: No (or incomplete) Housing History in last 12 months

Borrower(s) who own their primary residence free and clear aren't considered living rent-free. Documentation of timely payment of Real Estate Tax and Hazard Insurance are sufficient evidence of timely 12-month housing history payment.

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

- Primary residence and second homes only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- VOR/VOM must be obtained for all months available reflecting paid-as-agreed
  - See Credit: Accounts Not Appearing on Credit Reports for Private VOM and VOR requirements
- 24 months program type required

If the borrower indicates that they are living rent-free the following will be required:

- A signed letter from the owner/primary resident of the home must be provided verifying that the borrower is living rent-free.
- The letter needs to indicate the relationship between the borrower and owner/primary resident and the reason why the borrower is living rent-free at the home.
- Borrowers whose Bank statements show large regular monthly expenditures that do not match monthly payments on the credit report will be asked to provide images of checks to verify that the expenditures are not undisclosed housing-related payments

For Borrowers who lack a primary mortgage/housing history or do not have a complete history as required by the program guidelines are eligible if the following is met:

Borrower has a fully documented, recent, consecutive 12 or 24-month mortgage history, as required by program guidelines, on a personally held investment property in addition to the above restrictions, the following apply to borrowers living rent-free:

- LTV/CLTV is limited to 85% or the program maximum, whichever is lower
- Primary residence only
- Borrower is allowed a minimum contribution of 5% if the remaining contribution is documented and sourced from the same party providing the signed rent-free letter.

Credit: Past Due Balloon Payment on Existing Mortgage

Balloon mortgages (for lenders other than FundLoans) on the subject property that have passed their due-in-full date while the borrower was seeking financing will not be considered a derogatory housing event if it can be shown that the borrower was actively seeking financing before the due date and the mortgage will be paid in full via the refinance within 60 days of the original maturity date of the balloon mortgage. The same guidelines apply for non-subject property mortgages, but proof mortgage paid off, refinanced, or extended prior to subject property closing required.

Credit: Adverse Credit Seasoning

The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan unless otherwise noted.

Credit: BK/FC/SS/DIL/Forbearance or Modification

For any credit/housing event below, superior pricing and LTV's require 4-year seasoning. Minimum 2-year seasoning required for reduced LTV's and additional LLPA's (see matrix and rate sheet for more information.) When under 4 years of seasoning, new 0x30x12 housing history needs to be reestablished.

Bankruptcy History

Recent bankruptcies are allowed, all bankruptcies must be settled at the time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date.

All bankruptcies must be discharged or dismissed for the minimum number of months from the closing date as shown on the Matrix. See Matrix for specific details.

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

Foreclosure Seasoning

Seasoning of a foreclosure is measured from the settlement date (final property transfer) to the note date.

Foreclosure must be seasoned for the minimum number of months from the closing date (see Matrix for details).

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

Short Sale / Deed in Lieu Seasoning

Seasoning of a short sale or deed-in-lieu is measured from the settlement date (sale or final property transfer) to the note date.

Short sale or deed-in-lieu must be seasoned for the minimum number of months from the closing date (see Matrix for details).

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

Forbearance or Modification

Forbearance or mortgage loan modification resulting in any of the attributes listed below is subject to Housing Event seasoning (see Matrix for details):

- Length of time of any mortgage forbearance is limited to 12 months
- 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

A letter of explanation from the borrower addressing the situation that made forbearance or modification necessary must be provided. The current housing payment history along with the new housing payment must be considered when determining if the situation is adequately resolved.

Credit: Unresolved Disputed Installment & Revolving Accounts

The following guidelines can be utilized to address disputed accounts:

- Account with zero balance and no derogatory information – no action required
- Account with a positive balance and no derogatory information – no action necessary
- Account with zero balance and derogatory information – LOE & pull a new credit report to remove
- Account with a positive balance and derogatory information – LOE & pull a new credit report to remove.

Note: A credit supplement is not allowed to document disputed accounts. A new report must be pulled

Every reasonable attempt should be made to resolve the dispute and obtain an updated credit report/FICO score.

Disputed accounts do not need to be removed under the following circumstances:

- Non-derogatory disputed accounts under $ 1,000 Disputed medical collections.
- Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use.

To exclude these balances, a copy of the police report or other documentation from the creditor to support the status of the accounts.

When a disputed account(s) doesn't fit the exclusions above, and cannot be resolved, a combination of factors should be taken into consideration when determining the borrower'scredit risk. It is expected that an underwriter will leverage the 4 C's of Credit when determining an appropriate course of action including, but not limited to considering:

- Letters of Explanation A detailed letter of explanation from the borrower(s) should always be obtained when assessing disputed credit data.
- Patterns of Delinquency The overall pattern of delinquency must be taken into consideration when determining the willingness to repay in light of any disputed account(s).
- Accounts Paid in Full If a disputed account has been paid in full, it may be disregarded unless evidence is present that the account was severely delinquent.
- Isolated Incident(s) A single dispute or pattern of disputed accounts may be disregarded if sufficient compensating factors are present.

Credit: Judgments/Tax Liens

Any outstanding judgments or tax liens may remain open under the following conditions:

- Must be on a repayment agreement seasoned a minimum of 3 months
- Must document the most recent 12 months' payments (or payments-to-date if an agreement has been in place less than 12 months) have been made in a timely manner
- Must include the payment in the DTI and
- For refinances, if the judgment or tax lien is recorded against the property it must be subordinated and the program's LTV/CLTV limits must be calculated with the subordinated lien considered

If the conditions above are not met, the judgment or tax lien must be paid off prior to or at closing.

Cash-out proceeds may be utilized for this purpose

For tax liens, the title company must provide written confirmation confirming:

- the title company is aware of the outstanding tax lien, and
- there is no impact to first lien position

Credit: Collections/Charge Offs

A 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge-off date.

Prime Program:

- Open adverse credit must generally be paid off prior to or at closing, however, if an individual account balance is under $1,000 or the aggregate of accounts outstanding is under $1,000 may remain open.

The following accounts may remain open:

- 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

Collection and charge-off balances exceeding the amounts listed above must be paid in full under any program.

Under all other programs, collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to meeting all down payment/cash-to-close/required reserves); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI ≤ 50% (payment calculated at 5% of the balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

Credit: Medical Collections

Medical collections may remain open regardless of the amount.

Credit: Rolling Lates

On a case-by-case basis, the presence of a single incidence of a "rolling" 30-day late episode in housing payments (primary, second home, or investment) can be considered as meeting the 1x30x12 payment rating standard. Multiple incidents of rolling lates will not be treated as a single event and each occurrence of contractual delinquency will be considered individually for grading credit or meeting creditworthiness lending standards.

Credit: Lawsuits

If the application, title, or credit documents indicate that the borrower is involved in a lawsuit or litigation, additional documentation (e.g., attorney's explanation, copy of the complaint, and/or other supporting documentation) is required. The title company closing the loan must provide a letter stating affirmative coverage of the subject lien position. Generally, lawsuits and pending litigation are not eligible under the FundLoans Program, but situations in which the lawsuit or pending litigation can be determined not to have a meaningful impact on the borrower's ability to repay the mortgage may be permitted.

The liabilities of all applicants must be accurately documented and considered to make a sound credit risk decision.

Liabilities

Liabilities: Business Debt in Applicant's Name

For all doc types:

- The account in question does not have a history of delinquency,
- The P&L's show itemized interest sufficient to accounted for the account payments (or licensed/certified tax preparer Expense Letter notes that the expense ratio includes that portion of interest expense for the specific loan in question)
- The most recent 6 months canceled checks are drawn against the business account (or evident on business bank statement checks or ACH transfers)

If the Underwriter cannot confirm, the minimum payments for the debt must be included in the Borrower's DTI.

Liabilities: Unreimbursed Business Expenses

The full amount of an automobile or expense allowance may now be excluded (if reported on credit) with 12 months of canceled checks and/or expense receipts.

Liabilities: Debt-to-Income Ratio Definition

The DTI ratio includes:

The primary residence monthly housing expenses plus

- Minimum Monthly payment on Revolving charges
- Scheduled monthly payment of Installment debts with 10 or more remaining payments (automobile leases must be included in the DTI even if fewer than 10 payments remain)
- PITIA of any non-rental Real estate loans on a personally held property (e.g., second home)
- Real estate net rental losses (gains are credited to income) from all investment properties owned. Commercial properties are excluded when the borrower is not personally liable.
- Child support payments with 10 or more remaining payments (Alimony/Maintenanceis a debt, but can be subtracted from income)
- Court-ordered (or settlement agreement) obligations, if applicable, for divorced or separated borrowers
- Student loans, whether deferred, in forbearance or repayment the payment noted on the credit report or monthly account statement OR 1% of the unpaid balance

For any open 30-day accounts that do not reflect a monthly payment on the credit report, or that reflect a monthly payment that is identical to the account balance (e.g. AMEX) Borrower must document sufficient assets/funds to cover the balance of the 30-day account. Assets/funds required are in addition to any other assets required pursuant to these guidelines (reserves, closing costs, etc.). Cash-out may be used for this purpose.

ASSETS

Assets: Documentation Options

Various forms of documentation are acceptable depending on the borrower's asset type. Assets and reserves should be calculated and documented to Fannie Mae guidelines unless otherwise specified in FundLoans guidelines.

Assets: Large Deposits

When bank statements (typically covering the most recent two months) are used for Earnest Money,Down Payment, Closing Costs, Prepaids, and Reserves, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan need to be documented and sourced.

Assets: Cryptocurrency

that has been exchanged into U.S. dollars is acceptable for the down payment, closing costs, and financial reserves, provided the following requirements are met:

- there is documented evidence that the virtual currency has been exchanged into U.S. dollars and is held in the U.S. or state-regulated financial institutions, and
- the funds are verified in U.S. dollars prior to the loan closing.

A large deposit may be from a virtual currency that was exchanged into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's virtual currency account.

Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

Assets: Asset Types

Depository Assets:

For depository assets (checking and savings accounts, money market funds, and certificates of deposit) FundLoans requires two consecutive monthly bank statements (60 days of account activity).

Monthly bank statements must be dated within 45 days of the initial loan application date.

Quarterly bank statements must be dated within 90 days of the initial loan application date, and the lender must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.

Bridge Loan:

Bridge loans should also be considered in the Net Equity calculation for properties that are Pending Sale. (In other words, the amount of the bridge loan should be subtracted from thenet proceeds to avoid counting this asset twice.)

Earnest Money Deposits:

Earnest Money must be documented and come from a sourced and seasoned bank account. Earnest Monies failing documentation standards can be resent from a sourced and seasoned account (with an overpayment of Earnest Money being refunded to the applicant following the transfer).

Earnest Money is considered seasoned when supported by payroll/income deposits in the 60 days leading up to the withdrawal of Earnest Money. Non-payroll/income deposits need to be sourced to determine if they are an acceptable source of closing cash. Fannie Mae guides on acceptable sources of down payment and closing costs can be used.

Gift Funds:

The following table describes the minimum borrower contribution requirements for transactions that contain gifts. Gifts funds or gifts of equity are not allowed on investment properties.

LTV, CLTV & HLTV	Minimum Borrower Contribution	
80% or Less	1 – 4 unit primary residence Second-home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	1 unit primary residence	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	2 – 4 units primary residence Second-home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

A gift can be provided by:

- a relative, defined as the borrower's spouse, child, or other dependents, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- a fiancé, fiancée, or domestic partner.

The donor may not be or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. If your relative (or donor that meets FNMA eligible donor definition) is your real estate agent but no other party to the transaction (builder, developer, broker, seller, etc.) this is the one exception; however, the gift must be sourced and received prior to close and commission for the transaction cannot be used for a gift.

Funds from a non-borrowing spouse can be treated as the applicant's own fund and are not considered a gift. non-borrowing spouse funds in a sole account of his or hers can also be considered for reserves if the following is met:

- The borrower is currently married (not divorced/separated) from the spouse
- Non-borrowing spouse has lived with borrower last 12 mos AND
- Certifies he or she will continue to live with the borrower the next 12 mos
- Non-borrowing spouse is on the title to subject property

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and
- indicate the donor's name, address, telephone number, and relationship to the borrower

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include butare not limited to a copy of a driver's license, a bill, or a bank statement.

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes thefollowing:

- a copy of the donor's check and the borrower's deposit slip, or
- a copy of the donor's withdrawal slips and the borrower's deposit slip, or
- a copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check and an image of the donor's check

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official checks

.

Gift of Equity:

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction.

A gift of equity

- is permitted for principal residence and second home purchase transactions;
- can be used to fund all or part of the down payment and closing costs (including prepaid items); and
- cannot be used towards financial reserves.

The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to interested party contribution requirements.

LTV, CLTV & HLTV	Minimum Borrower Contribution	
80% or Less	1 – 4 unit primary residence Second-home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	1 unit primary residence	A minimum borrower contribution from the borrower's own funds is

Greater than 80%		not required. All funds needed to complete the transaction can come from a gift.
	2 – 4 units primary residence Second-home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

Net Equity:

At the time of Underwriting, net equity from properties pending sale can be estimated using the following formula:

((Present Market Value × 90%) – Amount of Mtgs. & Liens)

If a bridge loan is obtained, the amount of the bridge loan should be subtracted from the net proceeds.

A loan condition for the Settlement Statement will be required to be met by closing.

Secured Borrowed Funds:

Borrowers can borrow against an asset they own, such as a 401(k) account, real estate, or other assets of value. The loan should be an institutional loan or, in the case of real estate, a publicly recorded lien. Terms sheet or Note/Financing Agreement must be provided.

Evidence of the proceeds checks from the lender must be provided, as well as evidence of deposit to the applicant's account.

Sale of an Asset:

Generally, a four-step process is required:

- Proving ownership of the asset
- Establishing the Value of the Asset
- Bill of Sale
- Evidence of receipt of funds and deposit of funds into the applicant's documented bank statement

[Example: Sale of 1964 ½ Mustang: Provide Car Title in applicant's name; Kelly Blue Book or Car Appraiser's estimate; Sales agreement between applicant/seller and buyer; Image of buyer's check; deposit to applicant's account]

Assets: Assets Held in Retirement Accounts or Stocks/Bond/Mutual Funds

For Retirement accounts or Stocks/Bond/Mutual Funds, FundLoans requires two consecutive monthly bank statements (60 days of account activity).

Monthly bank statements must be dated within 45 days of the initial loan application date.

Quarterly bank statements must be dated within 90 days of the initial loan application date.

Funds in these accounts may be used for down payment and reservesas follows:

- Stocks/Bond/Mutual Funds - 100% of stock accounts can be considered in the calculation of assets for closing and reserves;
- Vested Retirement Account funds – 80% may be considered for closing and/or reserves if the borrower(s) have reached the age of 59 ½ or 70% if they have not at the time ofclosing;

Any assets which produce income or are used as income already included in the income calculation are not eligible for use as down payment or reserves.

Assets: Use of Business Funds

Business funds may be used for the down payment, closing costs, and for the purposes of calculating reserves. The borrower must be listed as the sole owner or co-owner of the account and the account needs to be verified per the requirements of this Guide.

If Business funds are used, the borrower must be the sole proprietor or 50% owner of the business. The Lender must determine that the withdrawal of funds will not have a negative impact on the business by one of the following methods based upon the income documentation.

Use of Business Bank Statement (May use one of the following methods)

A signed letter from a licensed/certified tax preparer or borrower verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. If borrower letter provided Borrower to detail the minimum obligations the business must cover in the next 60 days and compare it to the anticipated income toindicate that sufficient cash flow will exist after withdrawal of funds used for closing.
Business Expense Coverage: Using the most recent business bank statement(s) used for income documentation perform the following calculation;

- Most Recent Statement(s) Ending Balance(s)
- (Plus) Funds Available from Personal Account(s)
- (Minus) Transaction Down Payment
- (Minus) Transaction Closing Costs
- (Minus) Program Required Reserves
- = Funds Available for Business Expense Coverage

Funds Available for Business Expense Coverage must be a positive number and reflect:

- A minimum of 2 months of average expenses as reflected on the P&L or as determined by using the expense factor; or
- The balance sheet for the business must reflect positive working capital.

Working capital is the difference between the current assets less current liabilities. The result represents the maximum amount of business funds available to use towards the down payment, closing cost, and reserves

Assets: Reserves

The FundLoans Full Doc programs include minimum reserve requirements as outlined onthe FundLoans Product matrices.

Reserves must be sourced and documented. (See Assets: Asset Types) Business

Funds can be used for Reserves (See Assets: Use of BusinessFunds)

Proceeds from a cash-out refinance can be used to meet the minimum reserve requirements. Proceeds from 1031 Exchange cannot be used to meet reserve requirements.

Reserve requirements are waived for Rate-And-Term Refinance when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Additional Reserves for other financed properties are still required. (Waiver not eligible for DTI greater than 50%)

For Debt consolidation loans on Primary residences meeting requirements under the Debt Consolidation section of this guide, the reserve requirement is reduced to 1 month required. Additional Reserves for other financed properties are still required.

Additional Reserves -All financed properties, other than the subject property, require two (2) months PITIA in reserves for each property. The total reserve requirement is not to exceed twelve (12) months.

Assets: Reserve Calculations

- Reserves for a loan with an Interest Only feature can be calculated based upon the Interest Only housing payment.
- Reserves for an ARM loan can be calculated based upon the initial PITIA

Assets: Assets Held in Foreign Accounts

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower’s name at least ten (10) days prior to closing unless held in a multi-national Banking institution that has active branch locations in the U.S. (EXAMPLES: Applicant has funds in Hong Kong branch of J.P Morgan Chase, or European branch of Credit Suisse)

Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.

A copy of the two (2) most recent statements of that account. If the funds are not seasoneda minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds.

Program Exceptions

FundLoans will consider loans that meet a significant portion of key program parameters but may be slightly outside of the recommended LTV, FICO, DTI, or Reserves so long as the file has significant strengths in the remaining key program parameters.

“Case by case” referenced throughout is an “exception” to these Guidelines and FundLoans reserves the right to refuse to grant such case by case scenario or exception, and any granted are subject to additional LLPAs at the discretion of FundLoans.

Appendix: Occupancy Certification

EXHIBIT A: OCCUPANCY CERTIFICATION

Loan Number:

OCCUPANCY CERTIFICATION

I/ We the undersigned certify that:

____ Primary Residence – I/ we will occupy the Property as my/ our principal residence within Sixty (60) days after the date of closing as stated in the Mortgage or Deed of Trust I/ we executed. I/ We will continue to occupy the Property as my/ our principal residence for at least one year after the date of occupancy, unless lender otherwise agrees in writing.

____ Second Home – I/ we will occupy the Property as a second home (vacation, etc) while maintaining a principal residence elsewhere.

____ Investment Property – I/ we will not occupy the Property as a principal residence or second home. I/ we will not occupy the Property for more than 14 days in any calendar year. The Property is an investment to be held or rented rather than for household or personal use.

INVESTMENT PROPERTY ONLY (the following must be completed on an investment property loan)

____ I/ we understand that consumer protection laws applicable to consumer loans will not apply to this loan, including the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

REFINANCE ONLY (the following must be completed on a refinance transaction)

____ I/ We the undersigned, certify that the property referenced above is NOT currently listed for sale or under contract to be listed for sale.

I/ We the undersigned acquired this property on ____________________, __________.

I/We understand that it is illegal to provide false information in an application for a mortgage loan. Mortgage fraud is punishable by up to thirty (30) years in federal prison or a fine of up to $1,000,000, or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

I/We understand that failure to comply with the requirements in the Mortgage or Deed of Trust regarding occupancy of the property will entitle the Lender to exercise its remedies for breach of covenant under the Mortgage or Deed of Trust. Such remedies include, without limitation, requiring immediate payment in full of the remaining indebtedness under the Loan together with all other sums secured by the Mortgage or Deed of Trust, and exercise of power of sale or other applicable foreclosure remedies, to the extent permitted by the Mortgage or Deed of Trust.

Borrower: Date   Co-Borrower: Date

Borrower Date   Borrower Date

Appendix: Ability to Repay Notice

EXHIBIT C: ABILITY-TO-REPAY BORROWER CONFIRMATION

Important Ability-to-Repay Notice

Date:________________ Application No.: ________________

This Important Ability-to-Repay Notice is being provided to each borrower prior to the signing of the loan documents, but after federal Truth in Lending disclosures have been provided.

In reviewing your credit application, [_] has considered and verified the following information as it relates to your ability to repay this loan according to its terms as required by applicable law: (1) your current and reasonably expected income and/or assets (other than the value of the dwelling and any attached real property); (2) your current employment status (to the extent that employment income is relied on to determine repayment ability); (3) the monthly payment for principal and interest on the loan; (4) the monthly payment on any simultaneous loan that [_] knows or has reason to know will be made; (5) the monthly payment for mortgage-related obligations (*e.g.*, property taxes, certain insurance premiums, fees and special assessments for condominiums, and homeowners association, ground rent, and leasehold payments); (6) your current debt obligations, alimony, and child support; (7) your monthly debt-to-income ratio and/or residual income; and (8) your credit history.

Below and in the attached Application Form (Uniform Residential Loan Application on Fannie Mae Form 1003) is the information that [_] has been used and considered in making this loan, as required by applicable law:

Employment and Income
Current Monthly Income:____________________Current Monthly Income from Assets: ____________________

Housing Expenses
Principal and Interest Payment____________________
Real Estate Taxes____________________
Homeowner's Insurance____________________
Association Dues____________________
Other____________________
Total Housing Payment____________________

Debts
Installment and Revolving monthly debt payments____________________

Other Obligations (including alimony and child support payments) _________

Total Monthly Other Debts_______________________

The information listed above and, in the Attachment, was provided by you in your application and interview, and/or in third-party records and other documents (such as credit reports and tax records). Based on its consideration of this information, [_] has made a reasonable and good faith determination that you have the reasonable ability to repay this loan according to its terms.

[_] wants to make sure that the information listed above is correct and complete. [_] is in the business of making loans and collecting loan payments—it has no desire to make a loan that cannot be repaid under the terms of the agreement.

By your signature(s) below, you are confirming that:

(1) You have read and understand this Important Ability-to-Repay Notice, and the information listed above is correct and complete;
(2) Your current or reasonably expected income or assets (other than the value of the dwelling and any attached real property) is/are consistent with the information listed above;
(3) Your current employment status is consistent with the information listed above and/or attached;
(4) Your current housing expenses, debts, and other obligations (including alimony and child support payments) are consistent with the information listed above;
(5) You have not applied for or opened any new credit accounts, defaulted on any credit accounts, filed for bankruptcy, or had any judgments entered against you by a court;
(6) You have not experienced any other changes from the time you signed or otherwise completed the information listed above and in the attached Uniform Residential Loan Application (Form 1003) that would reduce your reasonable ability to repay this loan according to its terms.

Borrower(s):

________________________________ ___/___/______ ________________________________ ___/___/______

(Signature) DATE (Signature) DATE

________________________________ ________________________________

Appendix: Condominium Project Warranty Certification

Condominium Project Warranty Certification

Project Name:	
Project Address:	
Phase	
Borrower Name:	
Subject Address:	
Lender Name:	
Loan Number:	

This certification represents and warrants that the above condominium project meets all eligibility requirements for sale as required by Fannie Mae.

The Lender representative certifies that they have completed a Full Condo Project review as outlined in the Fannie Mae guidelines section B4-2.2-02 Full Review including review of all required documentation for the project type.

Project type: ☐ Established ☐ New ☐ 2-4 unit

Project Documents reviewed include:

	Condo Questionnaire
	Current annual HOA/Project Budget
	Current Balance Sheet
	Evidence of Project Insurance
	Project legal documents as required by Project type

Lender certifies that it has retained all supporting documentation used to complete the review for this Warranty Certification. The Lender Representative certifies that all appropriate documentation has been examined and that the Representative and Lender warrant that the project meets all requirements set forth in the FannieMae guidelines for a Full Review.

____

Signature of Lender Representative certifying

____

Name of Lender Representative

____

Title of Lender Representative

____

Date of Certification:

Appendix: Condominium HOA Certification

Form 1076

Condominium Project Questionnaire

Fannie Mae

ADDENDUM ADDED DECEMBER 2021

Instructions

Lender: Complete the first table below and enter the date on which the form should be returned to you.

Homeowners' Association (HOA) or Management Company: This form has been sent to you on behalf of an individual seeking mortgage financing to purchase or refinance a unit in this project. The mortgage lender needs this information to determine the eligibility of the project for mortgage financing purposes. Complete and return this form by ____________ (DATE) to the lender listed below. Questions about this form should be directed to the lender contact.

Lender Name:	**Lender Phone Number:**
Contact Name:	**Lender Fax Number:**
Lender Address:	**Lender Email Address:**

I. Basic Project Information		
1	Project Legal Name:	
2	Project Physical Address:	
3	HOA Management Address:	
4	HOA Name (if different from Project Legal Name):	
5	HOA Tax ID #:	
6	HOA Management Company Tax ID #:	
7	Name of Master or Umbrella Association (if applicable):	
8	Does the project contain any of the following? Check all that apply:	
	a ☐ Hotel/motel/resort activities, mandatory or voluntary rental-pooling arrangements, or other restrictions on the unit owner's ability to occupy the unit	
	b ☐ Deed or resale restrictions	
	c ☐ Manufactured homes	
	d ☐ Mandatory fee-based memberships for use of project amenities or services	
	e ☐ Non-incidental income from business operations	
	f ☐ Supportive or continuing care for seniors or for residents with disabilities	
	Provide additional detail here, if applicable (optional):	

Fannie Mae Form 1076/Freddie Mac Form 476 | Page 1 | March 2016 (addendum added December 2021)

Fannie Mae

II. Project Completion Information			
1	Is the project 100% complete, including all construction or renovation of units, common elements, and shared amenities for all project phases?	☐ YES	☐ NO
	If **No**, complete lines a-f:		
a	Is the project subject to additional phasing or annexation?	☐ YES	☐ NO
b	Is the project legally phased?	☐ YES	☐ NO
c	How many phases have been completed?		
d	How many total phases are legally planned for the project?		
e	How many total units are planned for the project?		
f	Are all planned amenities and common facilities fully complete?	☐ YES	☐ NO
2	Has the developer transferred control of the HOA to the unit owners?	☐ YES	Date transferred: ______
		☐ NO	Estimated date the transfer will occur: ______

III. Newly Converted or Rehabilitated Project Information			
1	Is the project a conversion within the past 3 years of an existing structure that was used as an apartment, hotel/resort, retail or professional business, industrial or for other non-residential use?	☐ YES	☐ NO
	If **Yes**, complete lines a-g:		
a	In what year was the property built?		
b	In what year was the property converted?		
c	Was the conversion a full gut rehabilitation of the existing structure(s), including replacement of all major mechanical components?	☐ YES	☐ NO
d	Does the report from the licensed engineer indicate that the project is structurally sound, and that the condition and remaining useful life of the project's major components are sufficient?	☐ YES	☐ NO
e	Are all repairs affecting safety, soundness, and structural integrity complete?	☐ YES	☐ NO
f	Are replacement reserves allocated for all capital improvements?	☐ YES	☐ NO
g	Are the project's reserves sufficient to fund the improvements?	☐ YES	☐ NO

Fannie Mae

IV. Financial Information

1	How many unit owners are 60 or more days delinquent on common expense assessments?	
2	In the event a lender acquires a unit due to foreclosure or a deed-in-lieu of foreclosure, is the mortgagee responsible for paying delinquent common expense assessments?	☐ YES ☐ NO
	If **Yes**, for how long is the mortgagee responsible for paying common expense assessments? *(Select one)*	☐ 1 to 6 months ☐ 7 to 12 months ☐ More than 12 months
3	Is the HOA involved in any active or pending litigation?	☐ YES ☐ NO
	If **Yes**, attach documentation regarding the litigation from the attorney or the HOA. Provide the attorney's name and contact information:	
	Attoney Name:	
	Attorney Phone Number:	

V. Ownership & Other Information

1 Complete the following information concerning ownership of units:

	Entire Project	Subject Legal Phase (in which the unit is located) *If Applicable*
Total number of units		
Total number of units sold and closed		
Total number of units under bona-fide sales contracts		
Total number of units sold and closed or under contract to owner-occupants		
Total number of units sold and closed or under contract to second home owners		
Total number of units sold and closed or under contract to investor owners		
Total number of units being rented by developer, sponsor, or converter		
Total number of units owned by the HOA		

Fannie Mae

2 Complete the following table if more than one unit is owned by the same individual or entity.

Individual / Entity Name	Developer or Sponsor (Yes or No)	Number of Units Owned	Percentage Owned of Total Project Units	Number Leased at Market Rent	Number Leased under Rent Control
	☐ YES ☐ NO		%		
	☐ YES ☐ NO		%		
	☐ YES ☐ NO		%		
	☐ YES ☐ NO		%		

3 Do the unit owners have sole ownership interest in and the right to use the project amenities and common areas? ☐ YES ☐ NO

If No, explain who has ownership interest in and rights to use the project amenities and common areas:	

4 Are any units or any part of the building used for non-residential or commercial space? ☐ YES ☐ NO
If Yes, complete the following table:

Type of Commercial or Non-Residential Use	Name of Owner or Tenant	Number of Units	Square Footage	% Square Footage of Total Project Square Footage
				%
				%
				%
				%

5 What is the total square footage of commercial space in the building that is separate from the residential HOA?
Include above and below grade space used for commercial purposes, such as public parking facilities, retail space, apartments, commercial offices, and so on.

Total square footage of commercial space:	

Fannie Mae

VI. Insurance Information & Financial Controls

1 Are units or common elements located in a flood zone? ☐ YES ☐ NO

If **Yes**, flood coverage is in force equaling (*Select only one option below*):

- ☐ 100% replacement cost
- ☐ Maximum coverage per condominium available under the National Flood Insurance Program
- ☐ Some other amount (*Enter amount here*): $ ____________________

2 Check all of the following that apply regarding HOA financial accounts:

- ☐ HOA maintains separate accounts for operating and reserve funds.
- ☐ Appropriate access controls are in place for each account.
- ☐ The bank sends copies of monthly bank statements directly to the HOA.
- ☐ Two members of the HOA Board of Directors are required to sign any check written on the reserve account.
- ☐ The Management Company maintains separate records and bank accounts for each HOA that uses its services.
- ☐ The Management Company does not have the authority to draw checks on, or transfer funds from, the reserve account of the HOA.

3 Supply the information requested below. Do NOT enter "contact agent."

Type of Insurance	Carrier/Agent Name	Carrier/Agent Phone Number	Policy Number
Hazard			
Liability			
Fidelity			
Flood			

VII. Contact Information

Name of Preparer:	
Title of Preparer:	
Preparer's Phone:	
Preparer's Email:	
Preparer's Company Name:	
Preparer's Company Address:	
Date Completed:	

Fannie Mae

Condominium Project Questionnaire Addendum

This Addendum is applicable to both condominium and cooperative projects. It must be completed by an authorized representative of the HOA/Cooperative Corporation.

Project Information	
Project Name:	
Project Address:	

Building Safety, Soundness, Structural Integrity, and Habitability		
1	When was the last building inspection by a licensed architect, licensed engineer, or any other building inspector?	
2	Did the last inspection have any findings related to the safety, soundness, structural integrity, or habitability of the project's building(s)?	☐ YES ☐ NO
2a	If **Yes**, have recommended repairs/replacements been completed?	☐ YES ☐ NO
	If the repairs/replacements have not been completed:	
2b	What repairs/replacements remain to be completed?	
2c	When will the repairs/replacements be completed?	
	Provide a copy of the inspection and HOA or cooperative board meeting minutes to document findings and action plan.	
3	Is the HOA/Cooperative Corporation aware of any deficiencies related to the safety, soundness, structural integrity, or habitability of the project's building(s)?	☐ YES ☐ NO
3a	If **Yes**, what are the deficiencies?	
3b	Of these deficiencies, what repairs/replacements remain to be completed?	
3c	Of these deficiencies, when will the repairs/replacements be completed?	

Fannie Mae

Building Safety, Soundness, Structural Integrity, and Habitability			
4	Are there any outstanding violations of jurisdictional requirements (zoning ordinances, codes, etc.) related to the safety, soundness, structural integrity, or habitability of the project's building(s)?		☐ YES ☐ NO
	If **Yes**, *provide notice from the applicable jurisdictional entity.*		
5	Is it anticipated the project will, in the future, have such violation(s)?		☐ YES ☐ NO
	If **Yes**, *provide details of the applicable jurisdiction's requirement and the project's plan to remediate the violation.*		
6	Does the project have a funding plan for its deferred maintenance components/items to be repaired or replaced?		☐ YES ☐ NO
7	Does the project have a schedule for the deferred maintenance components/items to be repaired or replaced?		☐ YES ☐ NO
	If **Yes**, *provide the schedule.*		
8	Has the HOA/Cooperative Corporation had a reserve study completed on the project within the past 3 years?		☐ YES ☐ NO
9	What is the total of the current reserve account balance(s)?		$
10	Are there any current special assessments unit owners/ cooperative shareholders are obligated to pay? If **Yes**:		☐ YES ☐ NO
	10a	What is the total amount of the special assessment(s)?	$
	10b	What are the terms of the special assessment(s)?	
	10c	What is the purpose of the special assessment(s)?	

Fannie Mae

Building Safety, Soundness, Structural Integrity, and Habitability			
11		Are there any planned special assessments that unit owners/ cooperative shareholders will be obligated to pay? **If Yes**:	☐ YES ☐ NO
	11a	What will be the total amount of the special assessments?	$
	11b	What will be the terms of the special assessments?	
	11c	What will be the purpose of the special assessments?	
12		Has the HOA obtained any loans to finance improvements or deferred maintenance?	☐ YES ☐ NO
	12a	Amount borrowed?	$
	12b	Terms of repayment?	

Additional Comments:

Contact Information	
Name of Preparer:	
Title of Preparer:	
Preparer's Phone:	
Preparer's Email:	
Preparer's Company Name:	
Preparer's Company Address:	
Date Completed:	

Guidelines Updates (04-09-2025 v3.9)

1. Eligible Transactions: Cash Out Refinance Defined (Page 8) New appraised value allowed with 6 month's seasoning