

# FUNDLOANS

## SPECTRUM ELITE DSCR GUIDELINES

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## 1.0 Introduction

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

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

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

### **Responsibilities:**

FundLoans Credit Guidelines must be interpreted and applied in a manner that complies with the laws and regulations established by the Consumer Financial Protection Bureau (CFPB) and any other applicable laws and regulations.

FundLoans has a no-tolerance policy as it relates to fraud. Brokers should have their own established fraud and identity procedures they follow for every loan to prevent and detect fraud (including, but not limited to, Social Security Number Verification, verbal verifications of employment, processing of 4506- C, USPS, OFAC, AML and any other Exclusionary Lists). Loans containing fraudulent documentation or information will not be funded by FundLoans. Any determination of Broker involvement and/or knowledge of misrepresentation will result in the dissolution of any FundLoans-Broker relationship. The appropriate agencies will be notified.

### **Additional Requirements:**

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



## 2.0 Borrower Eligibility

### 2.1 Eligible Borrowers

- U.S. Citizens (as defined by USCIS)
- Foreign National: Permitted with proof of primary home ownership and 12 months reserves. See Appendix 8.6 for requirements.
- Permanent Resident Aliens: An individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. Documentation requirements:
  - Valid and unexpired Permanent Resident Card/"Green Card" (Form I-551) without conditions.
  - For conditional permanent residents, proof of filed Form I-751 required. If any green card expires within the 6 months before closing, proof of a filed Form I-90 is required.
- Non-Permanent Resident Aliens: An individual who is not a U.S. Citizen but lives in the U.S. under the terms of an acceptable visa and/or EAD Card. Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. Individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens must be employed in the U.S. for the last 24 months.

#### Documentation requirements:

- Visa:
  - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
  - If Visa has expired at closing (date the Note is signed), a filed USCIS Form I-797 is required.
  - For residents of Canada or Mexico, H1-B status stamped on an unexpired passport is acceptable.
- EAD Card:
  - If expiration is within six months of the application, the borrower must show evidence that they have applied for an extension or provide a letter from the employer indicating they will continue to sponsor their employment.
  - The EAD Card must be unexpired at closing (date the Note is signed).

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

### ***SEE FOLLOWING PAGES FOR VISA AND EAD ELIGIBILITY MATRICES***

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



<b>VISA ELIGIBILITY MATRIX</b>				
<b>Visa Category</b>	<b>Visa Type</b>	<b>Brief Description</b>	<b>Documentation Required</b>	<b>EAD Code</b>
<b>Trade Treaty Work Visa</b>	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02
	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
<b>Temporary Employment Visa</b>	H-1B	Specialty Occupation	Visa	
	H-1B1	Specialty Occupation		
	H-1B2	Specialty Occupation - U.S. Department of Defense		
	H-1B3	Fashion model of distinguished merit and ability		
	H-1C	Registered nurse - U.S. Department of Labor		
	H-4	Spouse or child of H-1B	Visa and EAD	C26
<b>Media Work Visa</b>	I	Foreign media outlet (press, radio, film, or other)	Visa	
<b>Nonimmigrant Visa for Fiancé(e)</b>	K-1	Fiancé(e) - purpose of marriage	Visa and EAD	A06
<b>Nonimmigrant Visa for Spouse</b>	K-3	Spouse of a U.S. citizen	Visa and EAD	A09
<b>Temporary Employment Visa</b>	L-1A	Intracompany transfer - managerial or executive	Visa	
	L-1B	Intracompany transfer - specialized knowledge		
	L-2	Spouse or child of L-1A or L-1B	Visa and EAD	A18
<b>Temporary Employment Visa</b>	O-1A/B	Extraordinary ability in analysis, business, education, entertainment	Visa	
	O-2	Assistant to O-1		
	P-1A	Internationally recognized athlete		
<b>NAFTA Professional Workers Visa</b>	TN	Professional under NAFTA	Visa	
<b>Spouse / Child of Permanent Resident Alien</b>	V-1	Spouse of a Legal Permanent Resident (LPR) who is the principal beneficiary of a family-based petition (Form I- 130) which was filed prior to December 21, 2000, and has been pending for at least three years.	Visa and EAD	A15
	V-2	Child of a Lawful Permanent Resident (LPR) who is the principal beneficiary of a family-based visa petition (Form I-130) that was filed prior to December 21, 2000, and has been pending for at least three years.		
	V-3	The derivative child of a V-1 or V-2.		



### EAD ELIGIBILITY MATRIX

Certain borrowers may hold an EAD which does not require a corresponding Visa type. Borrower's holding the **EADs noted below are eligible without a Visa.**

EAD Code	EAD Code Definition
C09	Adjustment of status applicant
C10	<ul style="list-style-type: none"> <li>Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants Applicant for suspension of deportation</li> <li>Applicant for cancellation of removal</li> </ul>
C24	LIFE legalization applicant
C31	<ul style="list-style-type: none"> <li>Principal beneficiary of an approved VAWA self-petition</li> <li>Qualified child of a beneficiary of an approved VAWA self-petition</li> </ul>
C33	Deferred Action for Childhood Arrivals

## 2.2 Ineligible Borrowers

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

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

## 2.3 Experienced Investors

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

## 2.4 First Time Investors

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

- Minimum FICO per FundLoans Core matrix
- Minimum 1.00 DSCR
- 12 months reserves
- Verified 12-month housing payment history, and
- Max 75% LTV



## 2.5 Occupancy and Documentation Requirements

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

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

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

## 3.0 Transaction Eligibility

### 3.1 Purchase Money

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

- Delayed 1031 Exchanges only are permitted for down payment and cash to close only.
- HELOCs and 2nd liens not permitted.

### 3.2 Rate/Term Refinance

A Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaids, or buying out a co-owner/partner pursuant to an agreement. A seasoned non-first lien mortgage is a purchase money mortgage, a closed-end or HELOC mortgage that has been in place for more than 12 months (with no draws greater than \$2,000 in the past 12 months). HELOC withdrawal activity must be documented with a Transaction History from the HELOC account.

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. Exceptions are allowed in the following cases:
  - The borrower acquired the property through an inheritance or was legally awarded the property (e.g. divorce, separation, dissolution of domestic partnership).
  - The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.
- Cash-out Limit - Cash-out to the borrower limited to the greater of \$2,000 or 1% of the loan amount.
- Use current appraised value for LTV calculation purposes.
- Sale Restriction - Property must be removed from listing for at least one month prior to application and LTV will be based on the lesser of the list price or appraised value when listed within the last 3 months of the application date.

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





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

### 3.3 Cash-Out Refinance Transactions

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

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of loan application. If the subject property is owned for less than six months (Note to Note), a 5% reduction to max LTV is required and the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. Proof of improvements is required, and the purchase price must be documented by the final Closing Disclosure (CD) from the property purchase.
- No waiting period is required if the borrower acquired the property through an inheritance or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership. LTV/CLTV is based on current appraised value.
- Sale Restriction - Property must be removed from listing for at least three months prior to the Note Date. For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value.
- Cash back as it relates to the maximum limits is defined as “cash in hand” to the borrower. Net proceeds from a cash-out transaction may be used to meet reserve requirements. Maximum cash out is unlimited for LTV ≤ 65%. For LTV > 65%, maximum cash out is \$1,000,000.
- Delayed Financing - Borrowers who have purchased a subject property within the last six months preceding the disbursement date of the new mortgage are eligible to receive cash back with the loan being priced and treated as a Cash Out Refinance if the following requirements are met (See FNMA Guides for additional information):
  - The original purchase must have been an Arm’s Length Transaction.
  - The original purchase transaction is documented by the Settlement Statement which confirms that no mortgage financing was used to obtain the subject property.
  - The preliminary title report must confirm that there are no existing liens on the subject



property.

- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid fees, and points on the new mortgage loan (subject to maximum LTV and CLTV ratios for cash-out transactions based on the current appraised)
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), then all cash-out proceeds are to be used to pay-off or pay-down the loan used to purchase the property.
  - Settlement Statement for the refinance transaction must reflect the above
  - Any payments on the balance remaining from the original loan must be included in the DSCR ratio calculation for the refinance transaction.
  - Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
  - Source of funds must be documented. Examples of proper documentation include bank statements, personal loan documents, 401(k) withdrawal statements, or evidence of a HELOC on another property.

### 3.4 Ineligible Transactions

- Assumable loans
- Construction to permanent transactions
- Loans with Temporary Buydowns
- Builder Bailout Loans
- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- Non-Arm's Length Transactions
- Assignments of the contract to another buyer
- Graduated Payment Mortgage Loans
- Ground leases
- Buydown Mortgage Loans
- Pledged Asset Loans
- Convertible Mortgage Loans (i.e. allows an ARM to convert to a Fixed Rate Mortgage)
- Periodic Payment Loans - must have periodic payments due and loans can't have more than 3 monthly payments paid in advance from the proceeds of the mortgage loan
- Payoff of a loan with equity sharing features
- Loans with a negative amortization feature
- Simple interest loans



## 4.0 Credit

### 4.1 Analysis of Credit

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

#### 4.1.1 General Requirements

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

- The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.
- Aging - The Credit Report should be dated within 120 days of the date the borrower(s) sign the Note and Mortgage.
- Evaluation - In general, FundLoans will evaluate an applicant's credit report to determine their willingness to pay debts. Among other things, the credit report will be reviewed for:
  - Age of accounts
  - Delinquent payments: frequency, severity, aging
  - Account balance size
- A written explanation for credit inquiries is not required for DSCR loans.

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

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

#### 4.1.2 Credit Scores

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

A minimum of 2 credit scores are required to be provided for each borrower and is used to determine the qualifying credit score for loan approval. The Representative Credit Score for a borrower is the middle score of 3 FICO scores, or the lower score of 2 FICO scores (when only 2 FICO scores are provided). When more than one borrower qualifies for the loan, the qualifying credit score is the lower Representative Credit Score of all borrowers.



### 4.1.3 Tradeline Requirements

All borrowers should have an established credit history that is partially based on tradeline history. If a Borrower has three credit scores reporting on credit, then the minimum credit tradeline requirement for that borrower has been met.

If a borrower does not have 3 reporting scores, then the borrower(s) must meet the following requirements:

Required Tradelines	Active Reporting Period	Min FICO Required
<b>3 Tradelines</b>	≥ 12 months	Per matrix
<b><u>OR</u></b>		
<b>2 Tradelines</b>	≥ 24 months	Per matrix

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

- Eight or more tradelines reported,
- At least one tradeline active in the last 12 months, defined as last activity within 12 months of the credit report date, and
- At least one of these tradelines must be a mortgage tradeline (can also be counted as the active tradeline).

### 4.1.4 Housing History

Acceptable housing history requires evidence that a borrower has made a housing payment for at least the last 12 months whereby that payment history meets the requirements of the DSCR Credit Matrix. Housing history for the DSCR Doc type is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. For these properties, VOMs are required any outstanding mortgages including private mortgages. No additional documentation is required to support the VOM (e.g. cancelled checks not required). Verifications dated within 30 days of application do not require to be updated unless more than 60 days at time of Note date. If a borrower is renting their primary residence, a VOR from the landlord is required with no additional documentation (e.g. cancelled checks not required).

- Properties owned free and clear are considered 0x30 for grading purposes for each month the property has been owned free and clear (e.g. a property owned free and clear for the last 12 months satisfies the housing history requirement).
- Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required. However, any such mortgage that is reporting to the credit bureaus is subject to the housing rating requirements per the Program Credit Matrix.

### 4.1.5 No Housing History or Less Than 12 Months Verified

This section applies to any borrower who has not made at least 12 months of housing payments on any property (or as a tenant in a rental situation) in the most recent 12 months. Borrowers who live rent free



at their primary residence are not considered ineligible if they are an Experienced Investor that owns other REO that meets the 12-month housing history requirement as documented by acceptable mortgage payment history or free and clear ownership. A “rent-free” letter of explanation from the homeowner is required. Borrowers who do not have a complete 12-month housing history are ineligible for the program.

#### **4.1.6 Collections, Judgements, Liens**

- Judgements, Garnishments and Liens: The borrower must pay-off all open judgements, garnishments, and liens (including mechanics liens or material men’s liens) prior to the loan closing.
- Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
  - Collections and charge-offs < 24 months old with a maximum cumulative balance of \$2,000
  - Collections and charge-offs ≥ 24 months old with a maximum of \$2,500 per occurrence
  - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
  - All medical collections
  - Exception: IRS repayment plans with 3 months history of payments may remain unpaid
- Past Due Accounts must be brought current.

#### **4.1.7 Forbearance, Deferred Payments, Modifications**

- COVID Forbearance must be released and fully current.
- Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing.
- Mortgage Loan Modifications are acceptable with 36 months seasoning, minimum 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are:
  - Principal and/or Interest Forgiveness on either the first or second mortgage
  - Principal Curtailment by or on behalf of the investor to simulate principal forgiveness
  - Conversion of any part of the original mortgage debt to a “soft” subordinate mortgage
  - Conversion of any part of the original mortgage debt from secured to an unsecured debt

#### **4.1.8 Significant Adverse Credit Event**

- Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off Mortgage and/or Foreclosure must be seasoned at least 36 months from time of application.
- Foreign National adverse credit not permitted.

### **5.0 Capacity**

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



private mortgages).

## 5.1 Debt Service Coverage

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

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

- $DSCR = \text{Gross Rental Income} \div \text{PITIA of the proposed new loan}$ . If the subject transaction is an Interest Only loan, divide the Gross Rental Income by the ITIA (i.e. Interest only payment plus taxes, insurance, and HOA dues). PITIA or ITIA is based on the Note Rate of the loan for Fixed Rate loans. For ARM loans, see Section 5.1.2.
- Rounding up of the DSCR value is permissible from the 3rd decimal.
- Interest Only loans require a minimum FICO score as per the Program Credit Matrix.

On Purchase transactions, the qualifying Gross Rental Income figure is the higher of the market rent on Form 1007/1025 or the current lease provided the difference is not greater than 20%.

- When the market rent on Form 1007/1025 is greater than 20%, underwriting may use up to 120% of the lease amount to qualify (e.g. lease is \$1,100 and Form 1007/1025 is \$1,500, then \$1,320 may be used to qualify). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required. If the subject is vacant as indicated by the appraiser, use the market rent from Form 1007/1025 with no vacancy factor.
- When the Lease is greater than 20%, the higher lease amount may be used with 3 months current proof of receipt of the higher rental income (or as per the terms on the lease agreement for new leases). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.
- Short-Term Rental Income: If the subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of the rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. A 5% LTV reduction is required when using short-term rental income to qualify. In order to use market rent from Form 1007/1025 in which the appraiser utilized short-term rentals, the subject property must be located in an established short-term/vacation market and an exception is required.

On Refinance transactions, the qualifying Gross Rental Income figure is the higher of the market rent on Form 1007/1025 or the current lease provided the difference is not greater than 20%.

- When the market rent on Form 1007/1025 is greater than 20%, underwriter may use up to 120% of the lease amount to qualify (e.g. lease is \$1,100 and Form 1007/1025 is \$1,500, then \$1,320 may be used to qualify). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required. If the subject is vacant as indicated by the appraiser, use the market rent from Form



1007/1025 with no vacancy factor.

- When the Lease is greater than 20%, the higher Lease amount may be used with 3 months current proof of receipt of the higher rental income (or as per the terms on the lease agreement for new leases). A copy of the lease is not required if the appraiser lists the rent amount for the subject on Form 1007/1025. Otherwise, a copy of the lease is required.
- Leases are required to be no less than twelve (12) months but may convert to month-to-month upon expiration.
- **Short-Term Rental Income:** If the subject property is leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period. Either 12 monthly statements or an annual statement provided by the online service is required to document receipt of the rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. A 5% LTV reduction is required when using short term rental income to qualify. In order to use market rent from Form 1007 in which the appraiser utilized short-term rentals, the subject property must be located in an established short-term/vacation market and an exception is required.

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

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

The Debt Service Coverage Ratio (DSCR) must be greater than or equal to the published minimum as referenced on the Program Credit Matrix to be eligible for purchase by FundLoans. The underwriter must supply evidence of the DSCR calculation amount, i.e., the amount to be listed on the 1008, our DSCR Worksheet Calculation or our DSCR Income Calculation Worksheet.

### 5.1.1 Subordinate Financing

Not permitted.

### 5.1.2 Adjustable Rate and Interest-Only Qualifying

For all ARM loan transactions, the greater of the Note rate or the fully indexed rate is used to determine the qualifying PITIA. The fully indexed rate is calculated by adding the margin to the index. All ARM Notes and Riders should contain ARCC fallback language consistent with FNMA. Interest Only loans locked as ARMS are calculated using the fully amortizing payment off the Note rate.



ADJUSTABLE-RATE CRITERIA SOFR	
	DSCR
MARGIN	*See rate sheet
CAPS	5 YEAR ARM = 2/1/5
	7 YEAR ARM = 5/1/5
INDEX	30 DAY AVERAGE SOFR
RESET PERIOD	6 MONTHS
FLOOR	MARGIN

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

## 5.2 Assets

Measuring liquid assets is a good way to determine if a borrower has sufficient funds to pay for a down payment, closing costs and required reserves. The following is a list of established assets that can be used to determine a borrower's liquidity. Next to each asset is the value that FundLoans assigns based on its liquidity.

- Checking and Savings (100%)
- Certificates of Deposit (100%)
- U.S. Savings Bonds (100% if fully matured, otherwise 80%)
- Marketable Securities (100% net of margin debt) - Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded.
- Restricted Stock Units (RSU) - Refer to FNMA Guides
- IRA, Keogh, and 401(K) Retirement Accounts (80% of vested balance after deducting outstanding loans secured against it) including ROTH. Account statements should be updated with a transaction history dated within 30 days of Note date due to market volatility.
- Pension Plans (60%) - Only amounts accessible within a 30-day window are permitted. Account statements should be updated with a transaction history dated within 30 days of Note Date due to market volatility.
- Annuities (60%) - Only amounts accessible within a 30-day timeframe are permitted.
- Trust Accounts (100%) - Must review a copy of the full Trust.
- The use of business assets for self-employed borrowers for down payment, closing costs and reserves is allowed. The borrower(s) on the loan must have 50% ownership of the business and must be the owners of the business account. Access letters from the remaining owners of the business must be obtained as well.
- Spousal accounts - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
- Cryptocurrency (e.g. Bitcoin, Ethereum) is an eligible source of funds for down payment, closing costs and reserves. For down payment and closing costs, the assets must be liquidated and deposited into an established US bank account. For reserves, documentation to prove





ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date at 60% of the current valuation. If the borrower transfers the cryptocurrency into a U.S. financial institution prior to closing, 100% of the funds can be used for reserves.

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

### 5.2.1 Verification of Assets

Originator may use any of the following types of documentation for asset verification.

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

### 5.2.2 Other Requirements

- Assets must be seasoned for 30 days and any large deposits as determined by the underwriter must be sourced. \*\*See Section 8.4 for Foreign National requirements
- Gift Funds are allowed for purchase transactions only and cannot be used for reserves (only for down payment/closing costs).
  - Gifts must be from a family member.
  - 100% of the down payment/closing costs can come from gift funds provided the borrower documents a minimum of 10% of the purchase price from their own funds. The borrower does not have to actually contribute 10%, only document that they have 10%.
- Unsecured loans, sweat equity, and gifts that require repayment are ineligible for sources of down payment.



### 5.2.3 Reserves

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

\*\*Reserves are not stacked with the exception of Foreign Nationals which require reserves for additional financed properties. For IO loans reserves are based on the IO payment amount.

### 5.2.4 Seller Concessions

Occupancy	LTV	Max Percentage
Investment	All	6%

Seller concessions include:

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

## 6.0 Collateral

### 6.1 Eligible Property Types

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



## 6.2 Ineligible Property Types

Assisted Living	Mixed Use Properties
Agricultural properties	Properties with less than 500 square feet living space
Barndominiums	Properties under construction
Boarding houses	Rural properties greater than 20 acres
C5 or C6 property condition grades	Tenancy in Common properties
Commercial properties	Timeshares
Geodesic domes	Unique Properties
Log Homes	Working Farms
Manufactured housing or Manufactured Homes	Vacant lots
Work escrows are not permitted	No Mortgage Loans financing builder inventory is permitted

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

## 6.3 Declining Markets

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

## 6.4 Flips

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

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction.
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.



- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- Assignments of the contract to another buyer are not allowed.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained.

## 6.5 Transferred Appraisals

Appraisal transfers are permitted when the Originator has received approval from FundLoans in advance for their appraisal transfer policy to ensure compliance with the Home Value Code of Conduct (HVCC) and Appraiser Independence requirements and are subject to the following requirements:

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

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

## 6.6 Appraisal

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

- Properties must be appraised within the 12 months that precede the date of the Note. When the appraisal report is more than 120 days old, the appraiser must perform a recertification of value via FNMA 1004D or FHLMC Form 442 which includes inspection of the exterior of the property and review of current market data to determine whether the property has declined in values since the date of the original appraisal. Additionally, the investor reserves the right to require additional appraiser re- evaluation reports depending on age of documentation at the time of full loan delivery/purchase.
- A Uniform Residential Appraisal Report (URAR) with color photos is required.
- FNMA form 1004 / FHLMC Form 70 is used for one-unit properties including individual units in Planned Unit Development (PUD) projects and Site Condos. FNMA Form 1073 is used for condominiums. And FNMA Form 1025 is used for 2-4 unit properties.



## 6.7 Valuation Overview

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

- Uniform Appraisal Standards
- Appraiser Independence
- Appraiser Competency
- Fair Lending Requirements
- Vendor Selection Process
- Acceptable Appraiser Practice Standards
- Compliance with the Uniform Standards Professional Appraisal Practice (USPAP), as established by the Appraisal Standards Board of the Appraisal Foundation
- Properties in excess of the predominant value of the subject market area are acceptable provided they are supported by similar comparables and also represent the highest and best use of the land as improved.
- See complete FNMA Guides at <https://selling-guide.fanniemae.com/Selling-Guide/>
- See complete USPAP Guides at [www.uspap.org](http://www.uspap.org)

### **Appraiser Independence**

FundLoans expects to receive honest, unbiased professional opinions of value.

- Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties.
- FundLoans prohibits associates from asking appraisers to report a predetermined value or withhold disclosure of adverse features.
- All appraisals must be ordered through an Appraisal Management Company (AMC).
- FundLoans will not accept an appraisal from an appraiser who works for the lender, originator, borrower or any parties affiliated with the transaction.
- All appraisals must follow the Appraiser Independence Requirements pursuant to the Dodd-Frank Wall Street Reform and the Consumer Protection Bureau Act of 2010. Compliance with the Appraiser- Independence Requirements will be reviewed by an independent third-party.

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

### **Appraisal Review Requirements**

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

- A CU or LCA Score  $\leq$  2.5 is acceptable with no other valuation required. If the CU/LCA Score is  $>$  2.5, a desk review from one of the following is required:



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

## 6.8 Condo Project Review

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

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

### 6.8.1 Project Review Warrantable

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

### 6.8.2 Project Review Non-Warrantable

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

<b>NON-WARRANTABLE CONDOS</b>	
CHARACTERISTIC	EXCEPTION CONSIDERATIONS
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial space must be "typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.



COMPLETION STATUS	The project, or the subject's legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona-fide contract.
DELINQUENT HOA DUES	No more than 35% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%. Higher percentages may be considered under the DSCR Program when an established history of a high percentage of rental units in the condo project can be demonstrated.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA RESERVES	HOA Budget must include a dedicated line-item allocation to replacement reserves of at least 8% of the budget. Budget/Replacement Reserve Study Requirements allowed subject to the following requirements: <3% allocation to replacement reserves; provide condo questionnaire completed by HOA, copy of annual budget and a reserve study completed within the previous 5 years by one of the following professionals: CPA, General Contractor, or Property Manager with 3 years experience.
LITIGATION	Pending litigation may be accepted on a case-by-case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.
NEW PROJECTS	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 50%.



CONDOTELS	<ul style="list-style-type: none"> <li>• 50% of the total units in the project or subject's phase must be sold or under contract.</li> <li>• Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete.</li> <li>• Project may be subject to additional phasing.</li> <li>• HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only.</li> <li>• Maximum LTV/CLTV Purchase: 75%</li> <li>• Maximum LTV/CLTV R/T and Cash-Out: 65%</li> <li>• Minimum Loan Balance: \$150,000</li> <li>• Maximum Loan Amount: \$1.5 million</li> <li>• Max DTI 50% or Min DSCR of 1.00</li> <li>• Investor concentration, within the subject project, may exceed established project criteria, up to 100%</li> <li>• Minimum square footage of 475 and at least 1 Bedroom required.</li> <li>• Fully functioning kitchen – defined as a full-size appliance including a refrigerator and stove/oven.</li> <li>• Projects with names that include the words “hotel,” “motel,” “resort,” or “lodge” are acceptable.</li> <li>• Project must have obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines</li> </ul>
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## 6.9 Title Insurance Requirements

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

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

Eligible title insurance must reflect the following:

- The effective date of the commitment should be dated within 120 days of the signing of the Note and the mortgage. If the date exceeds 120 days, the title company must update the commitment with either gap coverage or an updated commitment. Please note that Texas loans must be within 90 days.
- Title insurance is required, the amount of the policy must be the same as the amount of the loan.
- All title vesting must be reviewed to insure it is as it appears on the application. All title holders are required to authorize the mortgage transaction which is accomplished by requiring all non-applicant title holders to sign certain closing documents.





- When title insurance is required on a property that is held in trust, the trust agreement must be reviewed and approved by the title company and our underwriters. FundLoans will not allow loans that are held in an irrevocable trust.
- The definition of the estate should be Fee Simple
- For a purchase loan, the vesting will state the seller's name(s) and should match the purchase contract. A deed transferring title will be required at closing.
- The legal description for the property should appear as it does on the appraisal and the application. The title report must contain the entire legal description and may be identified by lot and block or metes and bounds description.
- The original title commitment should be countersigned by an authorized person from the title company.
- Title report should show the appropriate lien position. It will also show if there are any exceptions listed on the commitment.
- Outstanding mortgages on the subject property are also listed on the preliminary title report. Any additional mortgages must be addressed, paid off and released at or prior to closing the loan. If any liens are to remain open, they must meet FundLoans' subordination guides.
- Liens and Judgments - Any liens (i.e., federal tax liens, mechanic's liens) or judgements must be paid off at or prior to closing. Judgments that belong to another person or of a similar name may appear on the preliminary title report. In these instances, the applicant must sign an affidavit at closing, to satisfy the title company, which states they are not the person(s) named in the judgement(s). These judgments should not be on the final title policy. Solar panel liens are to be subordinated or paid off. HERO liens must be paid.
- Real estate taxes and assessments are liens against the property that take precedence over all other liens. If the property owner fails to pay their taxes or assessments, then the county or city can sell the taxes to obtain the monies owed to them. Even if a lender has interest in the property, the taxes can be sold.
- If taxes on the subject property are due and payable within 30 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy.
- If a title company requires an escrow account when the due date is beyond 30 days (i.e., 45 days), then all parties must adhere to the title company's requirements.
- All borrowers must sign the title company's prepared escrow agreements at closing.
- Easements are rights that a person has on the property/land of another person. Examples of easements are public utility easements, mineral rights, beach rights and riparian rights. These will not affect our lien position and can remain as exceptions on the title policy.
- Encroachment is construction on the property of another (i.e., wall, fence, or a driveway). Encroachments listed on the preliminary title report can remain as an exception on the final title policy if the title company will insure against loss or damage caused by the enforced removal of the real property that is encroaching onto the property. However, if the title company will not provide insurance, then the encroachment must be reviewed by our underwriter to determine if this will materially affect the value of the property/improvements or our security interest.
- Surveys - All survey exceptions must be cleared on all loan products. FundLoans will defer to the



title company to advise on what is necessary to remove the survey exception.

- Homeowners Association Dues - HOA dues must be current or paid current at time of closing. A letter from the association is required stating that the applicant's dues are up to date, that there are no liens currently and that no liens have been placed on the subject property due to non-payment of dues.
- Lis Pendens - A legal notice that is recorded to show any pending litigation relating to the property. Anyone that is acquiring an interest in the property subsequent to the date of the notice may be bound by the outcome. All Lis Pendens are to be removed or the application will be denied.
- Rebuild in Coastal Areas - The application will be denied if the subject property is in a coastal area and cannot be rebuilt to its current density and use if destroyed.
- Oil and Gas Leases and Mineral Rights - FundLoans will require affirmative language if they remain as exceptions on the final title policy. We must confirm that these leases do not provide for any surface rights. If a lease does provide for surface rights, the property will be ineligible for sale to FundLoans.
- Agreements such as private well and septic, private roads and shared driveways also require affirmative language and can remain as an exception on the title unless they relate to a public utility. Private well agreements need to be reviewed to determine whether the well is on the subject property or the rights to the well will be transferred with the title to the property. If this is not the case, the subject property may be considered ineligible for sale to FundLoans.

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

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

### **6.9.1 Title Policy Requirements**

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

#### **Endorsements**

FundLoans requires all applicable endorsements to be present in a Title Insurance Policy.

Endorsements are available for title insurance policies only and they provide affirmative language and or protection to the lender for the specific exceptions being left on the title that typically occur due to property type. The following is a list of required endorsements:

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



## **Spousal Property Rights**

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

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

## **Survey Requirements - Each loan will have:**

- A survey of the property securing the loan; or
- A survey affidavit, acceptable in all respects to the title insurance company insuring the loan, such that the title insurance policy insuring the first mortgage encumbering the loan is without exception regarding any matter related to a survey including:
  - the location of improvements on the subject property
  - the location of easements on the subject property
  - the location of encroachments affecting the subject property, or the subject property's metes and bounds
- If a survey is included, the survey must have been certified, dated, and signed by a licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.
- Surveys must be reviewed by the underwriter for easements, encroachments, flood zone impacts and possible boundary violations.

## **6.9.2 Eligible Title Vesting**

Fee Simple with Title Vesting as:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust
- Vesting in an Entity – requirements below:
  - Entity must be domiciled in a U.S. state.
  - Business structure is limited to a maximum of four (4) owners/members.
  - Personal Guarantees must be provided by all members of the Entity who qualify for the loan. However, if a borrower signs as an individual and not as a member, a personal guarantee is not required.
  - Each Entity member on the loan must sign the security instruments.
  - Each Entity member providing a personal guarantee must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the



capacity of the guarantor. The application of each member providing a personal Guarantee and their credit score, and creditworthiness will also be used to determine qualification and pricing.

**NOTE:** Vesting in a life estate is not allowed.

For each business type, the following documentation must be provided:

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

Borrower Types	Description
<b>Primary</b>	The borrower who is listed first on the application or the borrower who owns the majority interest in the entity in which the loan will be closed in the name of.



<b>Co-borrower</b>	Any borrower (other than the Primary) who is jointly responsible for repayment of the loan with the Primary Borrower.
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All parties who take title to the subject property must sign the Security Instrument. All parties to the loan do not have to be on title.

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

### **6.10 Hazard Insurance Requirements/Cond (H06)**

Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. FundLoans requires hazard insurance protection on all loans.

Effective date showing on or before funding date is required with proof of insurance. On all refinance transactions, if the coverage termination date is within 30 days of the closing, FundLoans will require evidence of continuing coverage. A loss payable endorsement is required for all loan transactions.

The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum:

- Wind
- Civil commotion (including riots)
- Smoke
- Hail
- Damages caused by aircraft vehicle or explosions

Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless that have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

The HOI Policy must be effective for at least 60 days after the date of funding. Evidence of Insurance can be provided in one of the following forms:

- Policy
- Certificate of Insurance
- Insurance Binder

#### **Evidence of Insurance Requirements:**

- Names of the borrowers to reflect same name as on the Note/Security Instrument
- Property address matches the Note/Security Instrument



- Policy number
- Loan number
- Name of insurance company
- Insurance agent information
- Effective and expiration dates of coverage. For purchase loans, effective date must be on or before closing date
- Premium amount
- Coverage amounts and deductible
- Loss Payee Clause as applicable
- Signed and dated by the agent

### **Disaster Policies:**

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

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

### **Deductibles:**

- Family Residences - The maximum allowable deductible, to include any separate wind-loss or other separate deductibles that apply to a specific property element, is 5% of the face amount of the policy.
- Condos, Co-ops, and PUDs - The maximum deductible amount for policies covering the common elements must be no greater the 5% of the face amount of the policy.
- For losses related to an individual unit in a co-op or PUD that is covered by a blanket policy; the maximum deductible is no greater than 5% of the replacement cost.
  - If there is a wind-loss deductible, then the deductible must be no greater than 5% of the face amount of the policy.
- For Condos with blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

### **Determining the amount of required Hazard Coverage:**

The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft vehicle or explosions.

Hazard insurance policies that limit or exclude from coverage, in whole or in part, windstorm, hurricane, hail damages, or any other perils that would normally be included under an extended coverage endorsement are not acceptable.



Borrowers may not obtain hazard insurance policies that include such exclusions or limitations unless they have obtained a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril.

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

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

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

## 6.11 Miscellaneous

### **Fraud Reviews**

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

### **OFAC and Applicable Watchlists**

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

### **Closing Documentation**

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

### **Age of Documents**

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

### **Escrows**

- Escrows are required for LTV's greater than 80%.
- Flood Insurance must be escrowed regardless of LTV.

### **Maximum Financed Properties**

- FundLoans' exposure may not exceed \$7.5MM or 10 loans aggregate to any one borrower.
- **DSCR <1 is limited to a maximum \$2MM to any one borrower**



- There is no limitation to the total number of financed properties a borrower may own when the subject property is an investment property.

### **Property Taxes**

For new construction or full renovation property, one of the following is required to document the proposed property taxes based on improvements:

- Documentation from title/settlement attorney detailing tax amount being used is based on current tax mileage and new build/improvements, OR
- Printout of county tax estimator using purchase price OR appraisal cost new estimate (if shown on appraisal), OR
- Calculation worksheet using mileage rate + purchase price OR appraisal cost new estimate (if shown on appraisal) needs to be provided.

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

## **7.0 Exceptions**

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

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

## **8.0 Appendix**

- Example Business Purpose & Occupancy Affidavit
- Example Personal Guaranty Agreement
- Example Condo Questionnaire (Limited Review)
- Example Condo Questionnaire (Full Review)
- Investor Prepayment Penalty Reference Guide
- Foreign National





## 8.1 Business Purpose and Occupancy Affidavit Sample

LOAN NO: \_\_\_\_\_ (the "Loan")

BORROWER(S) NAME: \_\_\_\_\_

BORROWER(S) ADDRESS: \_\_\_\_\_

PROPERTY ADDRESS: \_\_\_\_\_ (the "Property")

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

1. I have applied for this Loan and am seeking financing for the Property, subject to the terms and conditions of certain documentation related to the Loan (the "Loan Documents"), for business purposes only. I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. The proceeds of the Loan will be used to purchase, improve, or maintain the Property. If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding. In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. I understand that Lender originating the Loan in reliance upon this Affidavit. If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an event of default under the terms of this Loan and the related Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. I understand that the agreements and covenants contained herein shall survive the closing of the Loan.
6. I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non-owner-occupied real property. I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the 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.), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.

Initial(s):	<b>The Property is not and will not be occupied by me or any family member, or if Borrower is an entity, any member or owner of the Borrower entity.</b>

[SIGNATURE PAGE FOLLOWS]



Borrower(s) / Borrowing Entity Members:

[ \_\_\_\_\_ ]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

[ \_\_\_\_\_ ]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**ACKNOWLEDGMENT**

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ )

On \_\_\_\_\_ before me, \_\_\_\_\_ (insert name and title of the officer) personally appeared \_\_\_\_\_, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of \_\_\_\_\_ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature \_\_\_\_\_ (Seal)



# 8.2 Personal Guaranty Agreement

## PERSONAL GUARANTY AGREEMENT

THIS GUARANTY ("Guaranty") is effective as of \_\_\_\_\_, 20\_\_\_\_, and dated the same date as the Note and Security Instrument (the "Loan Documents") securing the property located at \_\_\_\_\_ (the "Subject Property") by \_\_\_\_\_ (the "Guarantor", collectively if more than one), for the benefit of \_\_\_\_\_ (the "Lender").

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

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

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

NOW THEREFORE Guarantor acknowledges and agrees:

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

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

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

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

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

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

Dated: \_\_\_\_\_ → → → → → → Guarantor Signature

→ → → → → → Guarantor Printed Name

State of \_\_\_\_\_

County of \_\_\_\_\_

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

→ → → → → → Notary Public

Seal:



### 8.3 Condo Questionnaire (Limited Review)

Date: \_\_\_\_\_ Loan No. \_\_\_\_\_ Borrower(s) Name: \_\_\_\_\_  
 Project Name (Exact) \_\_\_\_\_ Phase Number: \_\_\_\_\_  
 Project Address: \_\_\_\_\_ County: \_\_\_\_\_  
 City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_  
 Subject Property Address/Unit #: \_\_\_\_\_

A mortgage loan is being processed on the subject property listed above.

The following information is required to complete the process. Your timely response is appreciated.

**Use this form when the following three conditions apply:**

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

Number of total units in project: \_\_\_\_\_

Unit is:  Attached  Detached

- |     | Yes                      | No                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----|--------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.  | <input type="checkbox"/> | <input type="checkbox"/> | If the subject unit is a <b>detached</b> unit, is the unit 100% complete?                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 2.  | <input type="checkbox"/> | <input type="checkbox"/> | Is the project a timeshare or condo hotel, or is it managed or operated as a hotel, motel, or vacation resort, even though the units are individually owned?                                                                                                                                                                                                                                                                                                                                                                     |
| 3.  | <input type="checkbox"/> | <input type="checkbox"/> | Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities <b>not</b> owned by the HOA (i.e. owned by an outside party including developer/builder)?                                                                                                                                                                                                                                                                                                                    |
| 4.  | <input type="checkbox"/> | <input type="checkbox"/> | Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)                                                                                                                                                                                                                                                            |
| 5.  | <input type="checkbox"/> | <input type="checkbox"/> | If a unit is taken over in foreclosure or deed-in-lieu of foreclosure, is the lender liable for more than 6 months of delinquent HOA Fees?                                                                                                                                                                                                                                                                                                                                                                                       |
| 6.  | <input type="checkbox"/> | <input type="checkbox"/> | Is more than 25% of the total square footage of the project used for nonresidential purposes (commercial space)?                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 7.  | <input type="checkbox"/> | <input type="checkbox"/> | Does the project consist of live-work units? Is it a live work project?<br>If yes, is it mostly residential in character and are the unit owners operates of the business? <input type="checkbox"/> Yes <input type="checkbox"/> No                                                                                                                                                                                                                                                                                              |
| 8.  | <input type="checkbox"/> | <input type="checkbox"/> | Are multi-dwelling units allowed (owner owns more than 1-unit secured by a single deed and single mortgage)                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 9.  | <input type="checkbox"/> | <input type="checkbox"/> | Is the project subject to zoning restrictions that would prohibit the project from being re-built to current density?                                                                                                                                                                                                                                                                                                                                                                                                            |
| 10. | <input type="checkbox"/> | <input type="checkbox"/> | Does any single entity (individual, investor group, partnership, corporation, or government housing authority) own more than the following number of units in the project? (see below)<br>If yes, check the appropriate project size and state how many they own: <ul style="list-style-type: none"> <li>▪ Projects with 2-4 units: &gt; 1 unit: # owned? _____</li> <li>▪ Projects with 5-20 units: &gt; 2 units: # owned? _____</li> <li>▪ Projects with &gt; 20 units: &gt; 10% of the total units: # owned? _____</li> </ul> |
| 11. | <input type="checkbox"/> | <input type="checkbox"/> | Is the Homeowners' Association currently involved in any litigation other than as the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage foreclosure action against unit owners?                                                                                                                                                                                                                                                               |
|     | <input type="checkbox"/> | <input type="checkbox"/> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



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

**Date:** \_\_\_\_\_

**Contact Name/Title:** \_\_\_\_\_

**HOA/Company Name:** \_\_\_\_\_ **HOA Tax ID:** \_\_\_\_\_

**Phone Number:** \_\_\_\_\_ **Fax Number:** \_\_\_\_\_

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

\_\_\_\_\_  
**Signature**



## 8.4 Condo Questionnaire (Full Review)

Date: \_\_\_\_\_ Loan No. \_\_\_\_\_ Borrower(s) Name: \_\_\_\_\_

Project Name (Exact) \_\_\_\_\_ Phase Number: \_\_\_\_\_

Project Address: \_\_\_\_\_ County: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Subject Property Address/Unit #: \_\_\_\_\_

A mortgage loan is being processed on the subject property listed above.

The following information is required to complete the process. Your timely response is appreciated.

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

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

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

Yes No

Is project (including all common areas) complete? If **No**, expected date of completion: \_\_\_\_\_ (mm/dd/yyyy)

Is the project subject to further expansion? If **Yes**, # of additional units to be built: \_\_\_\_\_

Has control of the HOA been turned over to the homeowners? If **Yes**, date: \_\_\_\_\_ (mm/dd/yyyy)

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

If a conversion, is it a gut rehab (refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components.

If **Yes**, provide the date the legal documents were recorded: \_\_\_\_\_ (mm/dd/yyyy)

Is all rehabilitation work for the conversion complete?

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

If **No**, what is incomplete? \_\_\_\_\_

3. How are the land and units owned?  Fee Simple  Leasehold

If leased, the expiration of the leasehold agreement is: \_\_\_\_\_ (mm/dd/yyyy)

If leased, provide recorded leasehold agreement:



#### CONDOMINIUM ELIGIBILITY

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



16.   Is the project a common interest apartment or a Co-op? (Defined as a project or building governed by several owners as tenants-in-common, or by an HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right to exclusive occupancy of a specific apartment within that building.)
17.   Is more than 25% of the total square footage of the project or the building used for non-residential purposes (commercial space)?
18.   Does the project consist of live-work units?
19.   Is it a live work project?

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

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

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

The contact information for the attorney or law firm representing the HOA is:

Name: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

21.   Is the HOA subject to a Master or Umbrella association? If yes: Name: \_\_\_\_\_
22.   Are any units in the project subject to resale restrictions (e.g. age, income, or rent stabilization)?  
If **Yes**, identify the restriction(s): \_\_\_\_\_  
If **Yes**, list the unit numbers: \_\_\_\_\_  
If **Yes**, provide a copy of the restrictive agreement (ie. Affordable Housing or Rent Stabilization Agreement, etc.)
23.   Are there recreational facilities owned by the HOA?

#### FINANCIAL

Yes No

24.   Are there any units 60 days or more delinquent? If **Yes**, provide the number of units: \_\_\_\_\_
25.   Are there any pending special assessments? If **Yes**, please explain: \_\_\_\_\_
26.   Does the HOA have a reserve fund separate from the operating account?  
If **Yes**, is it adequate to prevent deferred maintenance? Current amount in fund: \$ \_\_\_\_\_  
Total income budgeted for the year: \$ \_\_\_\_\_ Total reserves budgeted for the year: \$ \_\_\_\_\_
27.   Is the **lender** liable for delinquent common charges? If **Yes**, how many months? \_\_\_\_\_
28.   Does the project have any non-incident business operation owned or operated by the HOA? If yes, what percentage of the projects budgeted income comes from non-incident business operations? \_\_\_\_\_%
29.   Does the HOA own or operate any non-incident business operations (e.g. a restaurant, health club, spa, golf course, tennis club, etc.)?  
If yes, describe the type of business: \_\_\_\_\_
30.   Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities **not** owned by the HOA (i.e. owned by an outside party including developer/builder)?
31.   Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)





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

**INSURANCE**

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

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

Date: \_\_\_\_\_

Contact Name/Title: \_\_\_\_\_

HOA/Company Name: \_\_\_\_\_ HOA Tax ID: \_\_\_\_\_

Phone Number: \_\_\_\_\_ Fax Number: \_\_\_\_\_

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

\_\_\_\_\_  
Signature



**PHASING ADDENDUM FOR NEW CONSTRUCTION PROJECTS & NEW CONVERSIONS**

Project Name: \_\_\_\_\_

Project Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

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

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

Contact Name: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_



## 8.5 Prepayment Penalty

### State Specific Acquisition Guidance

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

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

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

- Illinois permitted to legal entities. Prohibited to individual borrowers.
- Maryland – Note must specifically include Choice of Law - Title 12, Subtitle 10 Credit Grantor provisions
- New Jersey permitted to legal entities. Prohibited to individual borrowers.
- Ohio permitted on loan amounts  $\geq$ \$110,223 (for 2024). Prohibited on loan amounts  $<$ \$110,223
- Oregon – requires state specific notice to borrower verbiage to be disclosed on the loan agreement (i.e. Note, Note Addendum or prepayment penalty rider)
- Pennsylvania permitted on loan amounts  $>$ \$312,159 (for 2024).
  - Loan amounts  $\leq$ \$312,159 permitted only on 3-4 residential units. Number of units will be validated prior to purchase.
- Washington permitted on fixed rate loans. Prohibited on ARM loans.

### Allowable Types of Prepayments

FundLoans will accept the following 1-to-5 year prepayment types as permitted by applicable laws and regulations on closed-end 1-to-4 unit business purpose investment properties:

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

## 8.6 Foreign National

A Foreign National is a citizen of a country other than the United States who resides outside of the U.S., who has not become a naturalized U.S. Citizen.

### Eligibility

- Foreign Nationals, as defined by U.S Citizenship and Immigration Services (USCIS), are eligible borrowers when the borrower resides from one of the following countries/continents:
  - Canada
  - Caribbean (Except Cuba)
  - China (Except Hong Kong)
  - Europe (Except Balkan Region, Belarus, Russia, and the Crimea, Donetsk, Luhansk, Herson and Zaporizhzhia regions of Ukraine)



- Latin America (Except Nicaragua)
- South America (Except Venezuela)
- Foreign Nationals from any other country not listed above or from any Country comprehensively sanctioned by OFAC (currently Cuba Iran, North Korea, Syria, and the Crimea, Donetsk and Luhansk regions of Ukraine) are ineligible.

### **Verification of Residency Status**

- The following visa types are permitted as foreign nationals: B-1, B-2, J-1, J-2, Visas must be valid through the Note date. Copies of the borrower's passport and unexpired visa must be obtained. Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record)
- If a non-U.S. citizen is borrowing with a U.S. citizen, it does not eliminate visa or other foreign national documentation requirements. Co-borrowers in possession of spouse or family member visas may be considered on a case-by-case basis.
- Participating countries can be verified through the U.S. Department of State website at: <https://travel.state.gov/content/travel/en/us-visas/tourism-visit/visa-waiver-program.html>

### **Exclusionary List/OFAC/Diplomatic Immunity**

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

### **Cash Out**

- Ineligible

### **Income Eligibility**

- DSCR Calculation
- Foreign Nationals employed by US businesses and issued W2s may qualify under Full Doc product by exception only



- Foreign Nationals with at least 50% ownership in a US business may qualify under Full Doc and Alt Doc, Business Bank Statement products by exception only

### **Credit Requirements**

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

Satisfactory credit reference letters will assume a Foreign

Credit distinction for locking and qualifying purposes.

- Trade lines evidenced via a U.S. credit report; AND/OR
- Trade lines evidenced via international credit report if a U.S. credit report cannot be produced or does not provide a sufficient number of trade lines; AND/OR
- Minimum 3 active credit trade lines evidenced via credit reference letter and supporting transaction history from country of origin.
  - Trade lines evidenced via credit reference letters from verified financial institutions (including those where savings/checking accounts are maintained) in the borrower's country of origin if a U.S. credit report and/or international credit report is not available, or the combination of the credit reports does not provide a sufficient number of trade lines
  - A minimum of 1 reference letter must be from an internationally known financial institution
  - Each letter of reference must state the type and length of the relationship, how the account is held, payment amount, outstanding balance and status of account including a minimum 24- month payment history
  - A single reference source may provide verification of multiple accounts. Individual account detail must be provided
  - The letter must mention the borrower by name
  - Name, title & contact information of the person signing the letter must be included
  - Currency must be converted to U.S. Dollars and signed and dated by certified translator

Credit report and reference letters must be dated within 60 days of the date of the loan documents. If more than 60 days, a new credit report must be obtained, or updated reference letters provided. Credit report and any reference letters must be translated by a 3rd party with confirmation in file. A two (2) year housing history is required.

### **Assets**

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



- The foreign bank must be a publicly traded internationally known financial institution. A search may be conducted via a web site such as <https://finance.yahoo.com/>. The web print-out must be documented in the loan file.

**Gift Funds**

- Ineligible

**Maximum Loan Exposure to One Borrower**

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

**Occupancy**

- All Foreign National loans are considered investment properties

**Vesting**

- Vesting in a Business Entity or Trust is not permitted

**POAs**

- Are allowed EXCEPT when the loan is a cash out refinance.