SERIES 5 – NON-QM ELIGIBILITY GUIDELINES

Effective 11/06/2023

Section 1.0 Introduction

1.1 Overview and Underwriting Philosophy

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

1.2 Underwriting Criteria

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

1.2.1 Ability-To-Repay (ATR) and Qualified Mortgage Rule (QM)

All loans (other than business purpose loans) must be ATR compliant and adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c). Lendz Financial requires the Exhibit B: Ability-To-Repay Borrower Attestation or similar document be included with all loan files delivered for purchase.

1.2.2 Alternative Loan Review / AUS

All loans must be manually underwritten. The Underwriting Approval, Income Calculation Worksheet, and the Underwriter's determination of ATR is required as part of the credit package. All loans considered suitable for delivery to Lendz Financial must have evidence of agency ineligibility. In the loan file, this is documented via either (1) a completed Exhibit E: Alternative Loan Review Form, or similar form, (2) a DU or LP underwriting findings report verifying the loan does not qualify for agency delivery (AUS Findings with a "Refer" or "Approve/Ineligible" response).

Section 2.0 Programs, Products, and Requirements

2.1 Program Overview

Lendz Financial offers multiple loan programs and document types to meet our client's needs. See Matrix for details and programs specific.

•The Lendz Series owner occupied is designed for primary and second home borrowers who require flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles while utilizing multiple document types to further address specific income circumstances in the demonstration of ability-to-repay.

- Full Doc 2 Yrs: Standard FNMA Documentation covering 24 months
- Full Doc 1 Yr: Standard FNMA Documentation covering 12 months
- Alt Doc Bank Statements: 12, 24 Bank Statements
- Alt Doc 1099: 1 or 2 Year 1099 and Paystub
- Alt Doc P&L Only: P&L covering 12 months (CPA, CTEC, EA Prepared)
- Alt Doc WVOE: FNMA Form 1005 + 2 months personal bank statements
- Alt Doc Asset Depletion: 6 months Asset Statements

- The Series 5 non-owner is designed for investment property borrowers that may or may not have had previous landlord experience. This program offers expanded credit parameters for multiple non-owner borrower profiles while utilizing multiple document types to further address specific income circumstances in the demonstration of ability-to-repay.

- Full Doc 2 Yrs: Standard FNMA Documentation covering 24 months
- Full Doc 1 Yr: Standard FNMA Documentation covering 12 months
- Alt Doc Bank Statements: 12 or 24 months Bank Statements
- Alt Doc P&L Only: P&L covering 12 months (CPA, CTEC, EA Prepared)
- Alt Doc Asset Depletion: 6 months Asset Statements
- DSCR: Investor DSCR (Debt Service Coverage Ratio)

2.2 Eligible Products

The following loan products are eligible for purchase by Lendz Financial. See Matrix for details.

• Fully Amortizing

- Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
- 5/6 SOFR: (2/1/5 Cap Structure)
- Qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate
- Margin: refer to rate sheet
- Minimum Interest rate Floor is Margin
- 7/6 SOFR: (5/1/5 Cap Structure)
- Qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate
- Margin: refer to rate sheet
- Minimum Interest rate Floor is Margin

30 Year Fixed

- Interest-Only
- Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term after the interest only period has expired.
- 5/6 SOFR: (2/1/5 Cap Structure)
- Qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate

- DSCR: Qualify borrower(s) on the Note Rate Initial Interest Only payment (ITIA)
- Margin: refer to ratesheet
- Minimum Interest rate Floor is Margin
- Interest-Only Period: 10 Year Interest Only Period
- Amortization Periods: 20 Year or 30 Year
- Loan Terms: 360 or 480 months
- 7/6 SOFR: (5/1/5 Cap Structure)
- Qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate
- DSCR: Qualify borrower(s) on the Note Rate Initial Interest Only payment (ITIA)
- Margin: refer to rate sheet
- Minimum Interest rate Floor is Margin
- Interest-Only Period: 10 Year Interest Only Period
- Amortization Periods: 20 Year or 30 Year
- Loan Terms: 360 or 480 months

30 Year Fixed

  - Overlays:

- See Matrix for Max LTV
- Qualifying Rate: Qualify borrower(s) at the Note Rate
- Margin: refer to ratesheet
- Minimum Interest rate Floor is Margin
- Interest Only Period: 10 Year Interest Only Period
- Amortization Period: 20 Year
- Loan Term: 30 Year

40 Year Fixed

  - Overlays:

- See Matrix for Max LTV
- Max 50 DTI

- Qualifying Rate: Qualify borrower(s) at the Note Rate
- Margin: refer to rate sheet
- Minimum Interest rate Floor is Margin
- Interest-Only Period: 10 Year Interest Only Period
- Amortization Period: 30 Year
- Loan Term: 480 months

2.3 Exceptions

Loans with exceptions must exhibit strong compensating factors and must be documented in the loan file.

2.4 Interest Only Restrictions

For interest only loans, see Matrix for maximum LTV. For 40 year interest only loans, maximum DTI is 50%.

2.5 Loan Amount Restrictions

Refer to matrix for loan amount minimums and maximums.

2.6 Minimum FICO

See Matrix for minimum Fico scores.

2.7 Maximum LTV/CLTV

See Matrix for maximum eligible LTV/CLTV. Maximum CLTV = Maximum LTV.

2.8 Interested Party Contributions / Seller Concessions

For primary residence and second home transactions, see Matrix for Interested Party Contributions limits.
For investment property transactions, Interested Party Contributions are as follows:

- All LTVs: max 3% of the lesser of the property's sales price or appraised value toward closing

All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state and local law.

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.

Interested party contributions may only be used for closing costs, prepaid expenses, discount points and other financing concessions, and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.

2.9 Escrows / Impound Accounts

Escrows for taxes and insurance are required for all HPML loans.
Escrows for taxes and insurance are required on loans with LTVs greater than 80%, unless otherwise specified by applicable state law.

2.10 Secondary / Subordinate Financing

Secondary or subordinate financing is allowed.
Subordinate liens can be paid off through closing. See 4.1.2 Rate / Term Refinance and 4.1.3 Cash-Out Refinance for more information.
Secondary financing is subject to the following:

- Subordinate financing must be recorded and clearly subordinated to the new mortgage
- Maximum CLTV = maximum LTV
- Seller-held subordinate liens are not permitted
- Payment on the subordinate financing must be included in the borrower's DTI; if a payment is unable to be determined, 1.5% of the original loan balance can be used

- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first

mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due

If the subordinate financing has a simultaneous closing, the following is required:
- A copy of the loan approval and repayment terms for the new financing; and,
- A copy of the executed note at closing.

If the existing secondary financing is being subordinated, the following is required:
- The repayment terms of the existing second lien;
- An unsigned copy of the subordination agreement prior to closing; and,
- A copy of the executed subordination agreement at closing.

2.11 Seasoning: Loan and Document

Credit Documents:	120 Days	
Income Documents:	60 Days	
Asset Documents:	60 Days	
Appraisal:	120 Days	***With Re-Certification of Value:*** 180 Days
Title Report:	120 Days	

2.12 Seasoning: Property Listing

For all transaction types, subject property must be taken off the market on or before application date. For all cash-out refinances, properties previously listed for sale are to be seasoned at least six (6) months from the listing contract expiration date to the Note date. DSCR with prepayment penalty ok for cash-out with no seasoning.

2.13 Fees

Fees will be deducted at time of loan funding and will be reflected on the Purchase Advice. Unpaid fees associated with loans not purchased may be netted from future fundings.

2.14 Automatic Payment Authorization (ACH)

It is recommended that the loan file contain a borrower executed and assignable Automatic Debit Payment Agreement (ACH) Form. The ACH form should include the bank routing number, account number, and type of account, similar to Exhibit C: Automatic Debit Payment Agreement (ACH) Form

2.15 Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner, the underwriter is required to obtain a valid phone number for the borrower(s). The phone number can be collected on the 1003 loan application or by using the Borrower Contact Consent Form Exhibit F: Borrower Contact Consent Form.

2.16 Prepayment Penalty

Prepayment penalties are eligible on non-owner and investment property transactions. See the

Matrix and Ratesheet for details.

Prepayment penalties on primary residence and second home transactions are

prohibited. Total points, fees, and APR may not exceed current state and federal high-cost thresholds.
Note: States may impose different definitions of points and fees, rate/APR, or prepayment penalties than apply under HOEPA. States may also use different triggers in each category for determining whether a loan will be a "high-cost mortgage" (or equivalent terms) under state law. Pre-payment penalty must be in compliance with the terms and limitations of the applicable state or federal law.

2.17 State and Federal High Cost Loans

Not eligible for Lendz Financial loan purchase.

2.18 Legal Documentation

Available Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation. In the case when Fannie Mae does not offer current documentation (e.g. interest only), a document vendor, such as Doc Magic or Ellie Mae, should be utilized for these forms.

2.19 Interest Credit

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

2.20 Assumability

Fixed Rate Notes are not assumable.

Adjustable Rate Notes may be assumable based upon the note. Fannie Mae Notes contain an assumable clause. Regardless, the verbiage on the Note and Closing Disclosure must match.

2.21 Property Hazard Insurance

2.21.1 Coverage Requirements

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

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.
Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.
Hazard insurance coverage should reflect one of the following:

- 100% of the insurable value of the improvements, as established by property insurer; or,
    - The unpaid principle balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements)

required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

2.21.2 Determining the Amount of Required Property Hazard Insurance

The following tables describe how to calculate the amount of required hazard insurance coverage. For insurance guidance not addressed in this section, default to FNMA requirements.

DETERMINING HAZARD COVERAGE	
Step	**Description**
1	Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.
1A	If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.
1B	If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, go to Step 2.
2	Calculate 80% of the insurable value of the improvements.
2A	If the result of this calculation is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.
2B	If the result of this calculation is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

EXAMPLES			
CATEGORY	**PROPERTY A**	**PROPERTY B**	**PROPERTY C**
INSURABLE VALUE	$90,000	$100,000	$100,000
UNPAID BALANCE	$95,000	$90,000	$75,000
80% INSURABLE VALUE	—	$80,000	$80,000
REQUIRED COVERAGE	$90,000	$90,000	$80,000
CALCULATION METHOD	Step 1A	Step 2A	Step 2B

2.22 Flood Insurance

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

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

2.22.1 Flood Certificate

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

The flood insurance requirement can be waived if:
• Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
• Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

2.22.2 Minimum Flood Insurance Coverage

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

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

The minimum amount of flood insurance required for a PUD or condo project is the lower of:
- 100% of the insurable value of the facilities; or,
- the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

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

Section 3.0 Property Eligibility

3.1 Appraisals

A completed appraisal report with full interior/exterior appraisal is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested.

3.1.1 Appraisal Requirements

Originators must order appraisals using one of two processes. The appraisal must either be ordered (1) through an Appraisal Management Company that complies with Appraiser Independence Requirements (AIR), or (2) via the Originator's own AIR compliant process. The licensed appraiser is required to perform an interior inspection when completing the appraisal report.

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)

- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Market Conditions Addendum to the Appraisal Report (FNMA Form 1004MC)

- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

The Appraisal should be dated no more than 120 days prior to the Note Date. A re-certification of value is acceptable if completed within the original 120 day period. A re-certification of value will extend the expiration date of the appraisal to 180 days. After 180-days, a new appraisal report is required.

Appraisal transfers are allowed.

Lendz Financial will not accept appraisals from appraisers on probation with any regulatory agency. No exceptions. Underwriters are required to check on transferred appraisals to ensure the above requirement is met. By accepting a transferred appraisal, Underwriters are warranting the appraisal is AIR compliant.

Not eligible for Lendz Financial purchase: Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset (UAD) guidelines. Lendz Financial will consider purchase if issue has been corrected prior to loan funding with proper documentation.

Loan Amount	Appraisal Requirement
≤ $2,000,000	One Full Appraisal*
> $2,000,000	Two Full Appraisals**

*Appraisal Review or FNMA CU Risk Score of 2.5 or less is required in addition to appraisal.
**When two appraisals are provided, an Appraisal Review or CU is not required. The lower value of the two appraisals will be utilized.

3.1.2 Additional Collateral Valuation Requirements

When two appraisals are used there are no further requirements. Use the lower value of the two appraisals.

There are two options for the additional appraisal review.

Option #1

An Automated Valuation Model (AVM) with a 90% or greater Confidence score supporting the value within 10% (higher or lower than appraised value) will be required when the requirement is One Full Appraisal. The AVM must provide at minimum a value conclusion with supporting documentation and variance from original appraisal value with analysis.

Suggested AVM vendors:

- Clear Capital
- Collateral Analytics
- CoreLogic
- Veros
- House Canary

If AVM variance exceeds 10% then a field review ordered from one of the following providers will be required:

- Class Appraisal
- Clear Capital
- Consolidated Analytics
- Direct Valuation Solutions, Inc. (DVS)
- Property Science
- Springhouse Valuations (AltiSource)

A field review from any of the above providers is acceptable in lieu of an AVM.

If a field review is obtained there is a 5% tolerance as follows:

- If the field review value is ≤ 5% below the appraised value, use the appraised value for LTV calculations.
- If the field review value is more than 5% below the appraised value, a second appraisal is required.
- Use the lower value of the two appraisals for LTV calculations.

Option #2
Lendz Financial will accept a Fannie Mae Collateral Underwriter (CU) appraisal review that meets the following:

- 1-unit property only (This is a CU limitation)
- Loan amounts < CU county limit
- CU Risk Score of 2.5 or less

When an acceptable CU is provided, an appraisal review is not required.

3.1.3 Minimum Property Standards

Minimum property standards include but may not be limited to:

- 600 square feet for single unit properties
- 2+ units no minimum. Size must be supported by market comparison.
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed $2,000
- No health or safety issues both internal or external

3.1.4 Rural Property

A property that is indicated by the appraisal as rural or containing any of the following characteristics would typically be considered as rural

- Surrounding area zoned agriculture
- Distance to schools and amenities greater than 25 miles
- Less than 25% of surrounding areas is developed
- Comparable properties are more than 5 miles from the subject property

See matrix for eligibility or limitations on rural properties.

3.1.5 Personal Property

Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property

value for purposes of calculating the LTV/CLTV/HCLTV.

3.1.6 Escrow Holdbacks

In general, Escrow Holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase.

On a case by case basis, escrow holdbacks for cosmetic repairs or completion items delayed due to weather may be acceptable under the following conditions:
- Holdback to be 150% of contractor bid amount for repairs.
- Maximum holdback $10,000 or 10% of the as-completed value, whichever is less.
- Repairs typically completed within 14 days from closing.
- Completion Report (1004D) certifying repairs stated in original report have been completed.

3.2 Ineligible Property Types

- Agricultural zoned property (may be eligible on a case-by-case basis)
- Co-ops
- Hawaii properties located in lava zones 1 and/or 2
- Hobby Farms
- Houseboats
- Income producing properties with acreage
- Manufactured homes
- Multiple dwellings on single lot (Legal ADU acceptable)
- Mobile Homes
- Properties subject to oil and/or gas leases (may be eligible on a case-by-case basis)
- Rural properties on some programs – see applicable matrix for eligibility.
- Unique properties
- Working farms, ranches or orchards
- Room and Board Facilities
- Adult Assisted Living/Care Facilities

3.3 Acreage Limitations

- Maximum 20 acres
- Property with acreage greater than 20 acres (appraisal must include total acreage)

may be allowed on a case-by-case basis; must have acceptable sales comparables of similar size

3.4 State Ineligibility

All states listed on matrix are eligible with exception of:

- Interest Only feature in TX when using the Texas Section 50(a)(6) Equity Cash Out transactions

3.5 Property Flipping

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." The following should be used 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).

Additional requirements apply for flip transactions:
- Property seller on the purchase contract must be the owner of record
- 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
- The property was marketed openly and fairly, through a multiple listing service, auction, FSBO offering (documented), or developer marketing
- Increases in value are to be documented with commentary from the appraiser and recent comparable sales
- Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.)

Flip transactions must comply with the TILA HPML Appraisal Rule in Regulation Z.

3.6 Title Vesting and Ownership

Ownership must be fee simple. On cash-out refinance transactions at least one borrower must be on title for 6 months except in the case of an inheritance or legally awarded property.

Acceptable forms of vesting are:
- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Blind Trust (accepted on a case by case basis)
- Business Entity
    - Limited Liability Company (LLC)
    - Limited and General Partnerships
    - Corporations

3.6.1 Inter Vivos Revocable Trust

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

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

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

3.6.2 Blind Trust

Vesting in a Blind Trust is accepted on a case by case basis. Signed attorney's opinion letter required.

3.6.3 Business Entity

Vesting solely in the name of a business entity (LLC, partnership or corporation) is acceptable under the DSCR. Underwriters must ensure loans that are secured by properties vested in a business are solely business purpose loans for the purchase or refinance of an investment property.

The following standards apply:

- All persons with >25% interest in the business entity ("Interested Persons") must apply for the loan and meet credit requirements
- Maximum of four (4) individual members/partners/shareholders. No entities as members.
- Persons who sign the note or a personal guaranty must sign the Exhibit A: Occupancy Affidavit prior to closing

Collateral documents must be signed as follows:

Note Signature	Required Security Instrument Signature	Personal Guaranty Required
Only Interested Persons	Both Business Entity and all Interested Persons	No
Only Business Entity	(a) Only Business Entity; or (b) Both Business Entity and all Interested Persons	Yes, for all Interested Persons
Interested Persons and Business Entity	(a) Only Business Entity; or (b) Both Business Entity and all Interested Persons	No

The following documentation must be provided:

- Formation and Operating documents
- Articles of Incorporation and bylaws
- Certificate of Formation and Operating Agreement, or
- Partnership Agreement
- Tax Identification Number
- Certificate of Good Standing

3.7 Leasehold Properties

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

Underwriter must provide documentation and Leaseholds must meet all FNMA eligibility requirements (i.e. term of lease).

3.8 Texas Section 50(a)(6) Equity Cash Out Loans

Texas Section 50(a)(6) Equity Cash Out is allowed per section

3.8.1 Underwriter Certification.

Interest Only is prohibited on a Texas Section 50(a)(6) Equity Cash Out loan.

Underwriters should not rely on Lendz Financial's categorization of refinance loans for the purposes of determining compliance with the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution. Underwriters should consult with their counsel to determine the applicability of Texas Constitution Section 50(a)(6) to a particular transaction.

Rate/Term Refinance
Defined as the borrower receiving no cash in hand at closing.

Texas Equity 50(a)(6)
Texas law determines when a loan is a Texas Section 50(a)(6) loan.

Non-Texas Section 50(a)(6) loan
A seasoned Texas Section 50(a)(6) loan can be refinanced into a non-Texas Section 50(a)(6) loan if certain conditions are met. A Non-Texas Section 50(a)(6) loan is eligible for purchase provided the loan meets standard eligibility criteria and the requirements of the Texas Constitution, including:

- The refinanced loan is created at least a year after the initial Texas Equity 50(a)(6) loan was closed;
- The loan amount only covers the actual cost of the refinancing, and does not provide the borrower with additional funds;
- The LTV/CLTV does not exceed 80 percent of the fair market value;
- The lender provides the borrower with certain disclosures within 3 business days of application and 12 or more days before the loan is closed; and,
- An affidavit that conforms to Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded.

The Underwriter certifies that with respect to all of the Texas Section 50(a)(6) mortgages delivered to Lendz Financial, the following applies:

- All Texas Section 50(a)(6) mortgages were (or will be) originated pursuant to written processes and procedures that comply with the provisions of the Texas Constitution applicable to mortgage loans authorized by Section 50(a)(6), Article XVI of the Texas Constitution, as amended from time to time.
- The underwriter has in place a specific process for the receipt, handling, and monitoring of notices from borrowers that underwriter failed to comply with the provisions of the law applicable to Texas Section 50(a) (6) mortgages. Such process must be adequate to ensure that the underwriter will correct the failure to comply by one of the authorized means no later than the 60th day after the date the underwriter is notified of the failure to comply by the borrower.
- An attorney familiar with the provisions of Section 50(a)(6), Article XVI of the Texas Constitution was consulted (or will be consulted prior to origination of the Texas Section 50(a)(6) mortgages) in connection with the development and implementation of the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages.
- To ensure ongoing compliance with the law applicable to mortgage loans authorized by Section 50(a) (6), Article XVI of the Texas Constitution, the processes and procedures used for the origination of the Texas Section 50(a)(6) mortgages will be reviewed by the underwriter regularly and will be updated and revised, as appropriate pursuant to clarifications of the law, on a regular and continual basis.
- The underwriter certifies that it is lawfully authorized to make loans described by Section 50(a)(6), Article XVI, of the Texas Constitution.
- The matters certified herein are representations and warranties of the underwriter given to Lendz Financial in connection with each Texas Section 50(a)(6) mortgage.

3.9 Limitations on Financed Properties

Primary and Second Homes

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

Investor Properties

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

Lendz Financial’s exposure to a single borrower may not exceed $5,000,000 in current UPB or maximum eight (8) properties. Exceptions to this policy will be reviewed on a case by case basis.

3.10 Disaster Areas

Underwriters are responsible for identifying geographic areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected.

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

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

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

3.10.1 Appraisals Completed Prior to Disaster Event, or Appraisals Not Completed

When the appraisal was completed prior to the disaster incident, or the appraisal has not been completed, an interior and exterior inspection of the subject property is required.

- Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability.
- Inspection report must include photographs of front, rear and street view of the property
- Any damage must be repaired and re-inspected prior to purchase.
- File must contain a copy of the inspection report and evidence of inspector licensing.

For flood and hurricane only disaster events, when the appraisal was completed prior to the disaster, external only DAIR allowed.

An appraisal update or final inspection from the appraiser must also be obtained.

- Appraiser must comment on the adverse event and certify there has been no decline in value
- Maximum deferred maintenance cannot exceed $2,000

3.10.2 Appraisals Completed After Disaster Event

When the inspection date of the appraisal is after the disaster event, the following requirements must be met:

- Appraiser must comment on the adverse event and any effect on marketability or value
- Maximum deferred maintenance cannot exceed $2,000

3.10.3 Disaster Event Occurs after Closing, but Prior to Loan Purchase

Loan is ineligible for purchase until an appraisal update or final inspection from the appraiser is obtained:

- A Post Disaster Inspection (PDI) Report from Clear Capital or Damage Assessment Report from ProTeck may be utilized, any indication of damage reflected on the report will require a re-inspection by the appraiser.
- The appraiser may perform an inspection (Fannie Mae Form 1004D) and comment

on the adverse event and certify that there has been no change to the value.
- Maximum deferred maintenance cannot exceed $2,000.

3.11 Declining Values
Properties in which the appraiser is reporting a declining trend in values for the subject's market area require a 10% reduction in the maximum LTV for the applicable program.

3.12 Condominiums
Fannie Mae eligible condominium projects and Non-Warrantable condominium projects allowed. Refer to 3.12.3 Non-Warrantable Condominium Projects in this section.

The underwriter may review and approve FNMA warrantable projects. Follow the review process required by Fannie Mae for Limited Review.

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

Limited Review Eligible Transactions Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occupancy Type	**Maximum LTV, CLTV, and HCLTV Ratios**
Principal Residence	90%
Second Home	75%
Investment Property	75%

Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See FNMA Seller's Guide section B4-2.2-04.

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

Lendz Financial condo project exposure maximum may be $5,000,000 or 15% of project whichever is lower. A borrower's concentration in a condo project is limited to two (2) units.

3.12.1 Ineligible Projects
Ineligible projects include the following:
- Timeshares or projects that restrict the owner's ability to occupy the unit.
- Projects that include combination live and work units.
- Manufactured home projects.
- Assisted living facilities, continued care facilities and life care facilities.
- Multi-family units where single deed has ownership of more than one or all of the

units.
- Condo conversions less than 2 years.
- Where more than 50% of the total square footage in the project is used for non-residential purposes.
- Common interest apartments.
- Projects in litigation or other disputes involving safety, soundness or habitability.
- Projects with adverse environmental issues involving safety, soundness or habitability.

3.12.2 General Project Criteria

- Project is in full compliance with applicable local and state laws and regulations.
- Project meets all FNMA insurance requirements for property, liability and fidelity coverage.
- Common areas and amenities within the project or subject phase must be complete.
- Project documents do not give a unit owner or any other party priority over the rights of the 1st mortgagee.

3.12.3 Non-warrantable condominium projects

Non-Warrantable condos allowed according to the characteristics listed in the table below. Completion of Fannie Mae's Condominium Full Review Form with supporting documents must be provided with loan package. The project and individual unit are to be reviewed by the Underwriter to determine whether the non-warrantable characteristic shown in the following table.

Review requirements, documents and limitations:
- Only one non-warrantable factor per project considered
- See Matrix for maximum LTV
- Completed HOA certificate is required
- Copy of Master property insurance and flood if applicable
- Master liability insurance
- HOA budget
- Copy of current balance sheet
- For new construction CC&Rs and Bylaws
- Litigation docs if applicable (document outlining complaint, attorney's opinion letter)
- Ground lease if applicable

Non-Warrantable Condo Considerations	
Characteristic	**Consideration**

Commercial Space	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial must be “typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
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.
Delinquent HOA Dues	No more than 20% of the total units in the project may be 60 days or more past due on HOA fees.
HOA Control	The developer may be in control of the condominium association as long as 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	Annual budget specifies a minimum of 5% allocation of replacement reserves.
Investor Concentration	Concentration up to 60%. Higher percentages may be accepted when there is an established history of a high percentage of rental units in the project demonstrated.
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.
Single Entity Ownership	Single entity ownership up to 25%

3.12.4 Condotels

Condo projects/resorts that do not exhibit typical hotel/motel type characteristics (vacancy signs, front desk, etc.) that have units available for short-term rental or provide unit owners with rental services are acceptable. Condotel units are categorized as non-warrantable condos.

- See matrix for maximum LTV and loan amount.
- All occupancies. See matrix for LTV maximums.
- Kitchen required with full size appliances, refrigerator, stove, oven.
- Bedroom required – no studios.
- Minimum 500 square feet.
- Investor concentration ok to 100%
- Ineligible:
    - Properties with hotel, motel in name. Converted hotel or motel.
    - Properties with Registration desks/office.
    - Projects with less than 10 units.
    - Properties that are not located in a resort/destination area (beach, ski, lake)

3.12.5 Re-certification of projects

Follow FNMA guidelines.

Section 4.0 Transaction Types

4.1 Eligible Transactions

4.1.1 Purchase

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

4.1.2 Rate / Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan. Proceeds from the transaction are used to pay off the existing first mortgage loan and any subordinate loan used to acquire the property.
LTV/CLTV is based upon the appraised value.

Loans can be classified as a Rate / Term Refinance if:

- Proceeds from the transaction are used to pay off any subordinate loan not used in the acquisition of the subject property provided one of the following apply:
- For closed end seconds, the loan has at least 12 months of seasoning (determined by the time between the note date of the subordinate lien and the application date of the new mortgage); or,
- For HELOCs and other open-ended lines of credit, the loan has at least 12 months of seasoning and total draws over the past 12 months are less than $2,000.
- Proceeds from the transaction are used to buy out a co-owner pursuant to an agreement.
- Proceeds from the transaction are used as cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.

4.1.3 Cash-out Refinance

A cash-out refinance is a refinance that does not meet the rate/term refinance definition.

Cash-out

would include a refinance where the borrower receives cash from the transaction or when an open- ended subordinate lien (that does not meet the rate/term seasoning requirements) is refinanced into the new transaction. Debt consolidation loans that pay off personal liabilities where the borrower receives no cash in hand will be categorized as a cash out refinance.

See Cash-out Seasoning for LTV/CLTV.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in 4.1.2 Rate / Term Refinance
- The amount of any non-mortgage related debt paid off through closing
- Additional cash in hand reflected on the settlement statement

A signed letter from the borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The underwriter should ensure the purpose of the cash-out is also reflected on the loan application.

4.1.4 DSCR Cash-out Restrictions

The DSCR program is designed for investment loans that are designated for business purposes only. Utilizing proceeds of the loan for personal, family, or household purposes is prohibited.

See DSCR program for LTV/CLTV restrictions.

4.1.5 Cash-out for Reserve Requirement

Net cash-out proceeds from the subject transaction may be used for required reserves. Cash-out cannot be considered assets for use to qualify on the Asset Depletion program.

4.1.6 Cash-out Seasoning

- Lendz Financial defines cash-out seasoning as the difference between application date of the new loan and prior financing note date or date of purchase.
- For properties owned 12 months or longer, the LTV/CLTV is based upon the appraised value.
- Properties owned less than 12 months but over six (6) months, the LTV/CLTV is based on the lower of the appraised value or purchase price plus documented improvements.
- Improvements documented with plans or work performed lists, permits, contracts, receipts supporting all work completed.

- Cash-out is not allowed if the property has been purchased (or acquired) less than six (6) months prior to the disbursement date of the new mortgage loan except for the following:

- There is no waiting period if the lender has documented that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- The property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned by the borrower, the time held by the LLC may be counted towards the borrower's 12 month ownership requirement.
- If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six (6) months ownership requirement if the borrower is the primary beneficiary of the trust.
- Delayed financing following FNMA eligibility requirements.

4.1.7 Cash-out Limits

See Matrix for maximum cash-out

4.2 Non-Arm's Length and Interested Party Transactions

4.2.1 Non-Arm's Length Transaction

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales and flip transactions. When the property seller is a corporation, partnership or any other business entity it must be ensured that the borrower is not an owner of the business entity selling the property.

A thorough review of the title report in these cases is required as well as the payment history pattern (VOM on the Seller's mortgage).

4.2.2 Interested Party Transaction

A Conflict-of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker/Agent, or any other interested party to the transaction.

In the case of a the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised. For example, the seller's real estate agent for the subject property may not act as the loan officer for the borrower(s) purchasing the same subject property. An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser and any other party to the transaction must be closely examined.

A Letter of Explanation regarding the relationship between the parties is required

When the borrower is a mortgage company owner or broker, their loan must be processed and submitted by an non-affiliated mortgage company.

4.2.3 Eligible Non-Arm's Length and Interested Party Transactions

- Non-arm's length transactions are allowed for the purchase of existing property
- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction
- Seller(s) representing themselves as agent in real estate transaction
- Renter(s) purchasing from Landlord
- 24 months cancelled checks to prove timely payments required

- A VOR is not acceptable
- Purchase between family members
- Full Documentation and Bank Statement Documentation only.
- Gift of Equity requires a gift letter and the equity gift credit is to be shown on the CD
- Must provide a 12-month mortgage history on existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout

4.2.4 Non-Arm's Length and Interested Party Restrictions

- Primary Residences only on Non-Arm's Length transactions
- Borrower to provide cancelled check verifying the earnest money deposit
- Cash-Out refinances not allowed
- For Interested Party Contribution on primary properties: See Matrix for IPC limits
- For Interested Party Contribution on investor properties: All LTVs maximum of 3%
- For-Sale-By-Owner (FSBO) transactions must be arms-length
- Employer to employee sales or transfers not allowed
- Property trades between buyer and seller not allowed
- Loans to employees/owners of originating lender on a case by case basis

Section 5.0 Borrower Eligibility and Requirements

Refer to Fannie Mae guidelines for all definitions of eligibility status. Lendz Financial requires that all borrowers signing the mortgage note (other than Foreign Nationals) must have a valid Social Security Number.

5.1 Fraud Report and Background Check

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

5.2 Non-Occupant Co-Borrowers

- Allowed for Purchases and Rate/Term Refinance
- Non-Occupant must be an immediate family member.
- Maximum Occupant only DTI 55%

Borrower and Co-Borrower must complete and sign: Exhibit D: Non-Occupant Co-Borrower Certification

5.3 First Time Homebuyers

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

First Time Home Buyer is allowed on some programs with guideline restrictions. See Matrix for restrictions.

A First Time Home Buyer can meet the housing history requirement with a satisfactory (0x30) consecutive 12 month rent history sometime in the 3 years prior to loan application.

5.4 First Time Investor

Lendz Financial defines a First Time Investor as a borrower who has not owned at least one (1) investment property for a minimum of twelve (12) months anytime during the most recent 36 months. Gift funds cannot be used for First Time Investor.

First Time Investor is allowed only with a primary mortgage history. See Matrix for restrictions.

5.5 Residency

5.5.1 U.S. Citizen

Eligible without guideline restrictions.

5.5.2 Permanent Resident Alien

Eligible without guideline restrictions.

A permanent resident alien is a non-U.S. citizen authorized to live and work in the U.S. on a permanent basis.

Acceptable evidence of lawful permanent residency must be documented and meet one of the following criteria:

- I-551: Permanent Resident Card (Green Card) issued for 10 years that has not expired
- I-551: Conditional Permanent Resident Card (Green Card) issued for 2 years, that has an expiration date, and is accompanied by a copy of USCIS form I-751 requesting removal of the condition.

- Un-expired Foreign Passport with an un-expired stamp reading as follows: "Processed for I- 551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized."

5.5.3 Non-Permanent Resident Alien

Eligible without guideline restrictions. All borrowers signing the mortgage note must have a valid Social Security Number.

A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis.

Legal Status Documentation:

- Visa types allowed: E-1, E-2, E-3, EB-5, G-1 through G-5, H-1, L-1, NATO, O-1, R-1, TN NAFTA
- Visa must be current. If the visa will expire within six (6) months of the loan closing

date, additional documentation is required. Document that extension steps and fees paid as shown by the USCIS website.
- When applicable, valid employment authorization doc (EAD) required for US employment if not sponsored by current employer

5.5.4 Foreign National

Eligible with guideline restrictions on DSCR investment property transactions. See 5.6 Foreign National - DSCR

5.5.5 Ineligible Borrowers

The following borrowers are ineligible:
- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.

5.6 Foreign National - DSCR

A Foreign National may periodically visit the U.S. for various reasons including vacation and/or business. To be eligible, the borrower must live and work in another country and be a legal resident of that same country. They may not purchase property intended for use as a primary residence.

5.6.1 Foreign National Guideline Restrictions/Overlays

Refer to matrix for maximum LTV/CLTV, loan amount and any other restrictions.
- Eligible for DSCR investor program only.
- Eligible property types:
- SFR, attached, detached
- 2-4 unit
- Condo, warrantable only
- No rural properties.
- Maximum 2 acres.
- Gift Funds not allowed
- Power of Attorney (POA) not allowed.

5.6.2 Foreign National Documentation Requirements

Visa types allowed:
B-1, B-2, H-2, H-3, I, J-1, J-2, 0-2, P-1, P-2, TN NAFTA, Laser Visa
The following are required as evidence the borrower is in the U.S legally
- Copy of the borrowers valid and unexpired passport (including photograph)
- Copy of the borrower's valid and unexpired visa (including photograph) OR an I-797 form with valid extension dates and I-94.
- Borrowers from countries participating in the State Department's Visa Waiver Program (VWP) are not required to provide a valid visa. The credit file should be documented with a current print out of the participating countries with the borrower's country of origin highlighted.
- Participating countries can be found at:

http://travel.state.gov/content/visas/en/visit/visa-waiver-program.html.
All parties involved on transaction must be screened through exclusionary lists, must be cleared through OFAC's SND list, search of Specially Designated Nationals & Blocked Persons List may be completed via US Department of Treasury:
http://sdnsearch.ofac.treas.gov/.
All borrowers must complete IRS form W-8BEN

Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial

requirements and must include the embassy or consular seal

5.6.3 Foreign National Credit

For Foreign National Borrowers with a valid Social Security number, a credit report should be obtained. Requirements found in section 6.0 Credit of this guide apply to credit qualification for Foreign Nationals with U.S Credit.
For 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), proceed with the requirements detailed in this section.
Qualifying Foreign Credit
For Foreign National Borrowers without Qualifying U.S. Credit, qualify and price at 660 FICO when determining eligibility and pricing per rate sheet.
Foreign National Borrowers without Qualifying U.S. Credit must provide evidence of the following:

- Two (2) credit or banking reference letters from verified financial institutions in the borrower's country of origin

a) 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 12 month payment history.
b) A single reference source may provide verification of multiple accounts. Individual account detail must be provided.
c) The letter must mention the borrower by name.
d) Name, title, and contact information of the person signing the letter must be included.
e) Currency must be converted to U.S. Dollars and signed and dated by certified translator.
f) All documents must be translated into English.

5.6.4 Foreign National Housing History

Evidence of a 2-year housing history (mortgage and/or rental) with 0x30x12 is required, or documentation of free-and-clear property ownership.

5.6.5 Foreign National Assets

Reserves
A minimum of twelve (12) months of reserves are required.
Assets Held in Foreign Accounts

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. Closing funds and reserves must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing.

Assets held in foreign accounts must be documented as follows:

- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
- A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds.

- Refer to section 7.5 Asset Documentation for eligible sources and types of assets.

Section 7.0 Assets prevails unless otherwise mentioned.

5.6.6 Foreign National: Automatic Debit Payment Agreement (ACH)

An executed Automatic Debit Payment Agreement (ACH) Form (Exhibit C) from a U.S. Bank, including either the bank routing number, account number, and account type or a voided check is required for transactions involving a Foreign National.

Section 6.0 Credit

6.1 Credit Report

A credit report is required for every borrower. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility for Lendz Financial loan purchase.

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

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

6.2 Loan Integrity and Fraud Check

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

6.3 Credit Inquiries

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

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

of the inquiry.
Inquiry explanations are not required on DSCR transactions.

6.4 Gap Credit Report

Underwriter should confirm there are no new borrower debt obligations. A gap credit report or soft-pull is required if Note date is greater than 30 days after the date of the credit report relied upon for

underwriting. The gap credit report or soft-pull is to be dated within 15 days of the Note date. This requirement does not apply to loans documented under the DSCR.
When a gap report or soft-pull is required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated.

6.5 Primary Housing History

Borrowers must have satisfactory consecutive 12-month primary mortgage and/or rent payment history in the three (3) years prior to loan application. Mortgage and rental payments not reflected on the credit report must be documented via an institutional Verification of Rent or Verification of Mortgage (VOR/VOM), or with alternative documentation. Alternative documentation must show the most recent 12-month history, and may be in the form of cancelled checks or bank statements, mortgage/rental statements including payment history, etc. Payments to private lenders or landlords require support with the most recent six (6) months cancelled checks. For borrowers who currently own all property free and clear, there is no mortgage/rent history requirement.

Housing history not required for Professional Investor. See 8.11.5 DSCR: Professional Investor

Borrower mortgage and/or rental history may reflect late payments in the last 12 months (see Matrix for limits). All housing late payments must be cured at the time of application and remain paid as agreed through closing. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

6.5.1 No Housing History or Less than 12 Months Verified

Borrowers who live rent free or without a complete 12-month housing history are allowed with the following restrictions:
DTI may not exceed standard limits per Matrix. Expanded DTI limits not available.

- See Matrix for LTV limitations.
- Primary Residence and second homes only
- Any available portion of a 12-month housing history must be paid as agreed
- Borrower(s) who own their primary residence free and clear aren't considered living rent free

6.6 Consumer Credit

6.6.1 Consumer Credit History

Any non-mortgage account can be no more than 30-days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing.

6.6.2 Timeshares

For credit review purposes, timeshare obligations will be considered consumer installment loans.

6.6.3 Consumer Credit Charge-offs and Collections

The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $2,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- All medical collections regardless of amount
- Collections and charge-offs that have expired under the state statute of limitations on debts; evidence of expiration must be documented

6.6.4 Consumer Credit Counseling Services

Borrower enrollment in Fannie Mae approved credit counseling services is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. In addition, the CCCS administrator must provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

6.6.5 Judgment or Liens

All open judgments, garnishments, and all outstanding liens must be paid off prior to or at loan closing.

6.6.6 Income Tax Liens

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

Tax liens that do not impact title may remain open provided the following are meet:

- The title company must provide written confirmation that the title company is aware of the outstanding tax lien and there is no impact to the first lien position
- The file must contain a copy of the repayment agreement
- A minimum of 6 payments has been made under the plan with all payments made on time
- The balance of the lien must be included when determining the maximum CLTV for the program
- The maximum payment under the plan is included in the DTI ratio
- Refinance transactions require a subordination agreement from the taxing authority

6.7 Bankruptcy History

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

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

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

6.8 Foreclosure Seasoning

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

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

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

6.9 Short Sale / Deed in Lieu Seasoning

Seasoning of a short sale or deed-in-lieu is measured from the settlement date (sale or final

property transfer) to the note date.

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

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

6.10 Forbearance or Modification

A mortgage that was placed in forbearance must meet one of the these requirements:

- If all payments have been made as originally scheduled during the forbearance period with no payments missed, the account must be reinstated (removed from forbearance). The borrower is eligible for financing with no waiting period.
- If one or more payments have been missed due to forbearance, the account must be reinstated and three monthly payments made as scheduled after completion of the forbearance period. A borrower may have missed more than three payments during the forbearance period and/or have the missed payments added to the loan's unpaid principal balance and still be eligible for financing.

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

6.11 Credit Score

The Representative Credit Score is to be used for the Credit Decision. A valid score requires one
(1) score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.
A borrowers' representative credit score is the lower of two (2) scores or the middle of three (3) scores.
For loans with multiple borrowers:
Doc Types other than Asset Depletion and DSCR: The occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the lowest representative score of all borrowers is to be used.
Asset Depletion and DSCR: Use the lowest representative score of all borrowers. Minimum

credit score for co-borrowers is 500.

6.12 Standard Tradeline Requirements

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

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

Valid tradelines have the below characteristics:

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

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

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

Limited Credit- Available for borrowers who have a valid FICO (per FNMA guidelines) but do not meet the Standard Tradeline requirements the following restrictions apply:

- Primary and Second homes only
- See Matrix for LTV limits.
- Minimum 10% borrower's own funds as down payment
- Maximum 45% DTI

6.13 Obligations / Liabilities not appearing on Credit Report

6.13.1 Housing and Mortgage Related Obligations

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

This requirement does not apply to loans documented under the DSCR.

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

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments

- Association Dues
- Any subordinate financing payments on mortgages secured by the subject property
- Premiums and similar charges that are required by the creditor (i.e., mortgage insurance)

6.13.2 Current Debt Obligations, Child Support, Alimony or Maintenance Obligations

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

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

Section 7.0 Assets

7.1 Document Options

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff, and applicable reserves.

Assets and reserves should be calculated and documented per Fannie Mae guidelines unless otherwise specified in the Guidelines. Fannie Mae prevails where this guide is silent regarding sources and types of assets as well as asset types not eligible to be included.

7.2 Reserve Requirements

Loan Amount	Required Reserves
Up to $1,000,000	6 months
$1,000,001 - $1,500,000	9 months
$1,500,001 +	12 months

Reduced reserve requirements available. Cash out from the subject transaction may be used toward the reserve requirement. (See Matrix for details).

Reserve requirements are waived for Rate-And-Term Refinance transactions per the below:

- When the transaction results in a reduction to the monthly principal and interest payment of 10% or greater; and,
- Housing history is 1x30x12 or better.
- Waiver not eligible for DTI greater than 50%.
- For an interest only loan, the reduction is based on the amortizing payment used for loan qualification.

Reserves must be sourced and documented per section 7.5 Asset Documentation.

Reserves for a loan with an Interest Only feature based upon the interest only payment.

PITIA is the monthly housing expense for a property and includes the following:

- Principal and interest (P&I)
- Hazard, flood, and mortgage insurance premiums (as applicable)
- Real estate taxes
- Ground rent
- Special assessments
- Any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)

- Any monthly co-op corporation fee (less the pro rate share of the master utility charges for servicing individual units that is attributable to the borrower's unit)
- Any subordinate financing payments on mortgages secured by the subject property

7.3 Down Payment Sourcing

Down payment funds should be documented for 60 days per the Fannie Mae Verification of Deposits and Assets guidelines with the documentation included in the loan file. Lenders must require that the borrower state the source of the down payment and provide verification. If the lender determines that the source of the down payment is another extension of credit, the lender must then consider that loan as simultaneous secondary financing. Refer to 2.10 Secondary / Subordinate Financing.

7.4 Gift Funds / Gifts of Equity

Gift Funds are allowed per the below requirements and restrictions:

- Gift funds are allowed for paying off debt, equity contribution refinances, and for closing costs and down payments.
- Gift funds may not be used to meet reserve requirements.
- Gift funds may not be used for first time investors.
- Acceptable Donors: Fannie Mae guidelines should be used for donor relationship to borrower(s), documentation, proof of funds, and evidence of receipt;

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

Gifts of Equity are allowed for Primary Residence only. Must meet all other guidelines for Gift Funds as presented above.

7.5 Asset Documentation

Fannie Mae guidelines prevail regarding sources and types of assets as well as assets which are not eligible for closing costs and/or reserves.

Asset Documentation should meet the following requirements:

- Account Statements should cover most recent 60-day period.
- VOD should be dated within 30 days of loan application date.

- Stocks/Bond/Mutual Funds - 90% of stock accounts can be considered in the calculation of assets for closing costs and reserves
- Vested Retirement Account funds – 80% may be considered for closing and/or reserves
- Non-vested or restricted stock accounts or units (RSUs) are not eligible for use as down payment or reserves
- Asset accounts used for to calculate additional income for qualifying purposes are not eligible for use as down payment or reserves.
- When bank statements are used, large deposits must be evaluated.

Assets Held in Foreign Accounts
Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. Funds used to close must be transferred to a U.S. domiciled account in the borrower's name at least ten (10) days prior to closing. Assets in a foreign account used for reserve requirements do not need to be transferred to a U.S. account. Assets held in foreign accounts must be documented as follows:

- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
- A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds.

7.5.1 Sole Proprietor Assets / Business Funds

Business funds may be used for down payment, closing costs and for the purposes of calculating reserves. The business funds credited to the borrower cannot exceed the borrower's ownership percentage. The account needs to be verified per the requirements in 7.3 Down Payment Sourcing.

The underwriter must determine that the withdrawal of funds will not have a negative impact on the business by one of the following methods based upon the income documentation:

Full Income Documentation (12 or 24 months)
The underwriter must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. The underwriter should utilize FNMA Form 1084 or a similar cash flow analysis form to show the business can support the withdrawal of the funds.

Self-Employed Borrowers
May use one of the following methods:

- Business Expense Coverage: Using the most recent business bank statement(s) used for income documentation perform the following calculation:
- Statement(s) Ending Balance minus (-) Transaction Down Payment minus (-) Transaction Closing Costs minus (-) Program Required Reserves plus (+) Fund Available from Personal Account(s)
- Equals (=) Funds Available for Business Expense Coverage
- Funds Available for Business Expense Coverage must be a positive number and reflect a minimum of 2 months of average expenses as reflected on the P&L; or
- The balance sheet for the business must reflect positive working capital. Working

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

Section 8.0 Income Documentation

8.1 Income Analysis

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

8.1.1 Income Worksheet

The loan file should include Underwriter's income calculations, or Lendz Financial's income calculation worksheet detailing income calculations.

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

8.1.2 Employment and Income Verification

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

If any borrower is no longer employed in the position disclosed on the Form 1003 at the Lendz Financial purchase date, loan will be ineligible for purchase.

8.1.3 Stability of Income

Stable monthly income is the borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three years. The Underwriter must determine that both the source and the amount of the income are stable.

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

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

While the sources of income may vary, the borrower should have a consistent level of income despite changes in the sources of income.

8.1.4 Earnings Trends

When analyzing borrower earnings, year over year earnings trends must be incorporated into the borrower's income calculation in accordance with Appendix Q to Part 1026 of Regulation Z— Standards for Determining Monthly Debt and Income.

- YTD income amount must be compared to prior years' earnings using the borrower's W-2s, signed federal income tax returns, or bank statements.
- Stable or increasing: Income amount should be averaged
- Declining but stable: If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the

current level, the current, lower amount of variable income must be used;
- Declining: If trend is declining, the income is not eligible.

8.2 Debt to Income Ratio / DTI

Standard Debt-to-Income ("DTI") maximums as per Matrix. Expanded DTI is allowed with restrictions. Refer to Matrix for DTI product details and restrictions.

For DTIs that exceed 43% (43.01 and above) residual income is required.

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

8.3 Residual Income

Residual income is required for all transactions with DTI > 43%.

Residual Income is the amount of gross monthly income remaining once a borrower has paid all monthly debt obligations.

For residual income, option to utilize either:
- residual income of $2,500 plus an additional $150 per dependent; or,
- residual income calculation per VA (VA calculation method not applicable to transactions using income qualification from bank statements).

For residual income calculation per VA, use VA Form #26-6393 Loan Analysis Exhibit G: VA Form #26-6393 Loan Analysis.

1) Calculate the total gross monthly income of all occupying borrowers. Note: do not gross up non-taxable income for the residual income calculation.
2)Deduct from gross monthly income:
   a) State income tax
   b) Federal income tax
   c) Municipal or other income tax
   d) Retirement or Social Security tax
   e) Proposed total monthly fixed payment (total mortgage payment + all recurring monthly obligations)
   f) Estimated maintenance and utilities (use $0.14 per square foot of gross living area)
   g) Job related expenses (if applicable – Employee Business Expense from IRS Form 2106)

3) Subtract the sum of the deductions (#2) from the total gross monthly income of all occupying borrowers (#1). The balance is residual income.
4) The calculated residual income must be either:
a) $2,500 plus an additional $150 per dependent; or,
b) equal to or greater than the corresponding residual income specified in the VA Residual Income Tables in VA Lending Manual Chapter 4.9 (presented below).
   i) From the table, select the applicable loan amount, geographic region and household size. Residual income must equal or exceed the corresponding amount in the table.

Table of Residual Incomes by Region for Loan Amounts ≥ $100,000				
Family Size	Northeast	Midwest	South	West
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1,003	$1,117
5	$1,062	$1,039	$1,039	$1,158
Over 5	Add $80 for each additional member up to a family of seven.			

Geographic Regions for Table of Residual Incomes	
Northeast	Connecticut, New Hampshire, Pennsylvania, Maine, New Jersey, Rhode Island, Massachusetts, Vermont
Midwest	Illinois, Michigan, North Dakota, Indiana, Minnesota, Ohio, Iowa, Missouri, South Dakota, Kansas, Nebraska, Wisconsin
South	Alabama, Kentucky, Puerto Rico, Arkansas, Louisiana, South Carolina, Delaware, Maryland, Tennessee, District of Columbia, Mississippi, Texas, Florida, North Carolina, Virginia, Georgia, Oklahoma, West Virginia
West	Alaska, Hawaii, New Mexico, Arizona, Idaho, Oregon, California, Montana, Utah, Colorado, Nevada, Washington, Wyoming

8.4 Documentation Options

Various forms of documentation are acceptable depending on borrower profile and borrower income type, and corresponding document program.

8.4.1 4506-C

When the IRS Form 4506-C is required, the form must be signed by the borrower and the transcript obtained and provided in the credit file. 4506-C required for all salaried co-borrowers.

Doc Type and 4506-C Requirement	
Full Doc 12 or 24 months	4506-C required
Alt Doc 1099	4506-C required
Alt Doc Bank Statements	No 4506-C
Alt Doc P&L Only	No 4506-C
Alt Doc WVOE or Asset Depletion	No 4506-C
Investor DSCR	No 4506-C

8.5 Full Income Documentation: 1 Year or 2 Years

8.5.1 Full Doc: Standard FNMA Documentation (1 or 2 years)

Full Income Documentation is available to borrowers with jumbo loans and conforming loans that fall just outside the parameters for Qualified Mortgages. Loans in this program must not be eligible for sale to any Government Agency.

8.5.2 Full Doc: Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DTI for the transaction.

8.5.3 Full Doc: Full Income Documentation (1 or 2 years)

2 years Full Income Documentation:

- The most recent two years tax returns required. The definition of most recent is the last return scheduled to have been filed with the IRS. Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one or two years of tax returns

-Plus-

- Wage or Salaried Borrowers – Complete VOE Form 1005 or recent paystub with YTD earnings and 2 years W2. 1040 tax transcripts required.

Self-Employed Borrowers - YTD P&L. Borrower prepared acceptable, borrower required to sign. 1040 tax transcripts required. When most recent year tax returns are unavailable (due to extension, etc.) a CPA prepared P&L is acceptable.

1 year Full Income Documentation:

- Wage or Salaried Borrowers, 1 year most recent W-2 or 1 year tax returns plus 30 days paystubs
- Self-Employed Borrowers, 1 year most recent tax returns (personal & business if applicable) plus YTD P&L. Borrower prepared acceptable, borrower required to sign. 1040 tax transcripts required.

Other Requirements:

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

Other Miscellaneous Income

- Treatment of miscellaneous income sources follow FNMA guidelines.

8.6 Alternative Income Documentation: 12 or 24 months Bank Statements

8.6.1 Alt-Doc: 12 or 24 months Bank Statements

This program is designed for borrowers who are self-employed and would benefit from alternative loan qualification methods. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income.

The Primary Borrower (greater than 50% of income) must be self-employed for at least 2 years (25% or greater ownership) to qualify for this program.

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

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

8.6.2 Alt-Doc: Bank Statement Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DTI for the transaction. Excessive NSFs on the bank statements may cause the loan to be ineligible.

8.6.3 Alt-Doc: Bank Statement Documentation

Self-Employed Borrowers

- A borrower with a 25% or greater ownership interest in a business is considered self- employed and must be evaluated as a self-employed borrower.
- Borrower must document two years current continuous self-employment with business license or statement from corporate accountant/CPA confirming the same.
- Other documentation from third parties may be acceptable on a case by case basis (e.g., letter from an attorney).
- Acceptable business license must be verified by third party (e.g., government entity, borrower's business attorney). Borrowers whose self-employment cannot be independently verified are not eligible.
- In instances where a license is not required (e.g., choreographer), a letter from a CPA confirming employment may be accepted in lieu of a license.

1099 Contractor

- A borrower who is a "1099 contractor" may be considered self-employed for this program with confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). The borrower can have no ownership of the 1099 payor company.

Service & Tip Industry

- Due to the cash nature of the service and tip industry, those borrowers may participate the bank statement program. Full documentation is required for employment. Base salary is verified with pay stubs and W-2s. Qualified tips are averaged over time. Utilize the bank statement analysis to determine tip income.
- Borrowers who obtain their income primarily in the form of service fees or tips, are not required to have a business license.

Non-taxable Income (if included in deposits)

- Non-taxable income may be grossed up by 15% for qualifying (e.g., Social Security)
- Supporting documentation is required to validate deposits.

Retirement and Other Income (if included in deposits)

- Retirement income and other fixed documentable income is allowed for qualifying income for both a self-employed borrower and for any non-self-employed or retired co-borrower.
- Non-taxable income may be "grossed up" by 15%.
- Other non-retirement income from the self-employed borrower (e.g., W-2 wage income) may be used. This other income must be fully documented (i.e., may not use the bank statement documentation).
- Supporting documentation is required to validate deposits.

Rental Income (if included in deposits)

- Rental income used for qualification must be documented with lease(s). Use 75% of

lease rent amount minus PITIA for net rental income.
- An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is allowed.
- Supporting documentation is required to validate deposits.

Employed Borrowers (if co-borrower)
- Most recent paystub including year-to-date earnings (covering minimum of 30 days) and two years W-2s; or,
- Traditional Written Verification of Employment with 30 days of paystubs and 2 years W-2s.

- Must have 2 years continuous employment in the same line of work.
- Gaps of 90 days or less may be accommodated with adequate explanation.
- W-2 only and/or 1099 transcripts from the IRS are required for the wage earning or retirement income co-borrower.

8.6.4 Alt-Doc: Bank Statement Income Analysis

- Bank statements are used to calculate and show consistency of income for the self-employed borrower.
- When using 12 or 24 months of bank statements, no P&L is required. Personal & Business Bank Statements Combined
- If personal and business bank activity are combined in one bank account, borrower is to
- provide the most recent 24 or 12 months consecutive bank statements from the same account.
- The bank statements are analyzed per 8.6.5 Alt-Doc : Business Bank Statement Income Analysis to determine qualifying income.
- Standard expense factor applies; 50% expense factor.
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard expense factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- The minimum expense factor with CPA letter or P&L is 20%.
- When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income (subject to the minimum expense factors). Provide either of the following:
- A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation (Exhibit H: Sample of CPA Letter); or,
- A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
- The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of

the gross receipts per the P&L.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Personal & Business Bank Statements Separated
- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).

- The deposits are analyzed and averaged to determine monthly income.
- No expense factor
- Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Business Bank Statements Only
- If only using business bank statements, borrower is to provide the most recent 24 or 12 months consecutive business bank statements.
- The bank statements are analyzed per Section 8.6.5 to determine monthly income.
- Standard expense factor applies; 50% expense factor.
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than 50%), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflect higher expenses.
- The minimum expense factor with CPA letter or P&L is 20%.
- When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
- A CPA/CTEC/EA produced written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation(Exhibit H: Sample of CPA Letter); or,
- A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
- The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.

The bank statements should show a trend of ending balances that are stable or increasing over the 24 or 12 month period.
- Large deposits inconsistent with history must be documented as business income.
- Net deposits must not reflect any other income sources already taken into

consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

8.6.5 Alt-Doc : Business Bank Statement Income Analysis

Using bank statements to document qualifying income requires the underwriter to review each set of statements differently according to the type of business and the detail of information contained in the statements.

Unlike a paystub, W2 or tax return, bank statements do not contain the same details from one bank to another. All bank statements will contain the same general information such as deposits, debits, balances etc. The information that will vary widely will be the details shown for each debit or deposit source. Some accounts will contain copies of checks written while most will not.

The underwriter will have to understand and analyze the following to determine a supportable qualifying income:

- Research the business type – The UW must have an understanding of the type of business the statements represent and the expected deposits and expenses for the business both in dollar amounts and frequency. The UW must review the address(es) of the business to ensure the location could support the type and size of business reported if applicable.
- The UW will have to categorize the type of bank statements being reviewed as either combined personal and business or business only. Statements cannot be categorized based solely on the account "name". The activity in the details are to be used to determine the account type.
- The UW will have to review the individual electronic and check debit activity to determine that the expense ratio being applied is accurate and supported by the statements.
- When the bank statement debit activity reflects expenses higher than the standard expense ratios (8.6.4 Alt-Doc: Bank Statement Income Analysis) the UW is to analyze the monthly debits to determine the representative expenses for the business.
- The UW will have to recognize when the bank statements provided are insufficient to determine a supportable qualifying income. Often additional statements or "other" accounts may be required to provide a complete income picture.

Personal and business bank statements combined: These are accounts that are typically used by small business owners for both business and personal use. The account activity will show deposits from business activity as well as all other sources of income (wages from spouse, second job, SSI, rents, etc.).

Business Bank Statement: These are accounts that are used solely for business revenue and expenses. The account will typically show revenue and expense activity for only the business. Occasionally the account could show deposits or liability payments that are not business related.

- An acceptable business account will reflect business revenue deposits and business expense payments. An account showing deposits and only transfers to other accounts is not sufficient to analyze the business expenses and determine qualifying income.

- Trust accounts or Client Trust accounts are not acceptable documentation for determining qualifying income. The Operating account for the business must be used to accurately analyze business expenses.

Initial Deposit Review: Using an income worksheet the UW is to document the total deposits from the monthly statement. The UW will review the individual deposits on the statement and itemize deposits that are not allowable (unknown wires, transfers from other accounts, refunds, unusually large deposits). Income documented separately (SSI, W2, etc.) but included in deposits being reviewed must be backed out of deposits. Gross rents from any REOs are to be backed out of the deposit totals.

- From statement to statement the UW can recognize a deposit pattern of regular dollar amounts, frequency and source. From this pattern and the UW knowledge of business type, the threshold for unusual deposit amounts will be apparent. Additional documentation of unusual deposits will be required to be included as business revenue.
- UW to research deposits/wires that the source is identified to insure the deposit is business revenue. The UW will be able to identify deposits that are from business financing sources and not to be included as revenue
- Deposits that are inconsistent in type, size or source are to be noted by UW for further review after several months have been completed. The UW can often determine a deposit as acceptable or not after multiple months of activity for deposits and debits are reviewed.

Review of Debits: The UW is to review each statement debit activity for the purpose of supporting the business expense factor used to determine qualifying income. Subject to the information provided for each debit, the UW will be able to determine the accuracy of the expense factor.

- Debits from the account are to be reviewed for consistency with the business type and expense factor applied or provided in the case of a CPA P&L. A business with a 40% expense factor per the P&L will not have 60% of the monthly deposits paid out to 3rd parties over a 12 or 24 month period. The UW will be able to support the expense factor provided or determine the accurate expenses of the business with the review of the debit activity and checks paid.
- Debits that are known personal liabilities (as per credit report) are not viewed as business operating expenses. Undisclosed liabilities that occur regularly are to be researched to determine if additional documentation is required to categorize the expense as business or personal.
- Debits that are paid to the same sources that a deposit has been received from must be backed out of the deposit totals.
- Debits that are reversals or adjustments to a deposit item are to be backed out of the deposit total for that statement period.

Review of Checks Paid: All bank statements will itemize checks paid during the statement period. Some statements will also include copies of each check.

- Statements without copies of checks – With a list of the checks written during the statement period, the information an UW can capture is limited. The approach with checks written from a business account is to treat them as business expenses unless documented as otherwise by a copy of the cancelled check.
- Statements with copies of checks – With the copies of cancelled checks the UW

will have clarity as to whether the payment is an expense of the business. The payee name, memo line and the endorsement of the check will provide information that can assist the UWs review and assessment of the business expenses.

8.7 Alternative Income Documentation: 1099

8.7.1 Alt-Doc: 1099

This program is designed for borrowers who are paid on a 1099 basis and would benefit from alternative loan qualification methods. Most recent 1 or 2 years IRS Form 1099 may be used as an alternative to tax returns to document the borrower's income.

The Primary Borrower (greater than 50% of income) must be paid on a 1099 basis for at least 2 years to qualify for this program. The borrower can have no ownership of the 1099 payor company.

8.7.2 Alt-Doc: 1099 Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DTI for the transaction.

8.7.3 Alt-Doc: 1099 Requirements and Documentation

The following is required:

- Most recent 1 or 2 years IRS Form 1099 from employer(s). Borrower must have 2 year history of 1099 employment. Different employer(s) from year to year or multiple employers must be documented as same business type.
- Third party documentation (CPA/CTEC/EA) supporting a 2 year employment history when 1 year 1099 used.
- Current earnings from 1099 source(s) documented with:
- Payroll check stub reflecting YTD income from 1099 source, or
- 3 months bank statements supporting 1099 monthly income.
- Tax transcripts for 1099s.
- 10% expense factor applied to determine qualifying income.

8.8 Alternative Income Documentation: P&L Only

8.8.1 Alt-Doc: P&L Only

This program is designed for borrowers who are self-employed and would benefit from alternative loan qualification methods. A CPA/CTEC/EA completed and signed P&L may be used as an alternative to tax returns to document a self-employed borrower's income. No other income documentation type other than Asset Depletion can be combined with the P&L for the self- employed borrower.

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

No 4506-C/tax transcripts/Tax Returns

8.8.2 Alt-Doc: P&L Only Restrictions

The minimum expense factor with a P&L is 20% for service business, 40% for product

business.
Service Business – Offers services such as Accounting, Consulting, Counseling, Financial Planning, Insurance, Therapy.

Product Business – Sells goods such as Contracting or Construction, Food Services, Manufacturing, Restaurant, Retail.

8.8.3 Alt-Doc: P&L Only Requirements and Documentation

All of the following is required:

- Business license for the past 2 years.
- A letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone number, and license number is required with the following information:
- CPA/CTEC/EA prepared or reviewed the most recent 2 years of business tax return filing; and,
- The business name, borrower's name, and percentage of business ownership by the borrower.
- CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12 month period.
- A gap P&L covering period between end of 12 month P&L and application required when gap is greater than three (3) months.
- Income from co-borrowers who are W2 wage earners is to be documented with most recent

W2 and paystub.

8.9 Alternative Income Documentation: WVOE

8.9.1 Alt-Doc: WVOE

This program is designed for wage or salaried borrowers providing a streamlined loan qualification method.

8.9.2 Alt-Doc: WVOE Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DTI for the transaction.

This documentation program is not available to borrowers employed by a family owned/managed business.

8.9.3 Alt-Doc : WVOE Requirements and Documentation

· Acceptable documentation forms:

- FNMA Form 1005
- Equifax (The Work Number)
- Finicity (TXVerify
- Any other acceptable online income data vendor.
- 2 months personal bank statements supporting WVOE employment wages.

Form 1005 must be fully completed (current gross pay, YTD earnings, past 2 years earnings) by an authorized company representative (Owner, Officer,HR).

8.10 Alternative Income Documentation: Asset Depletion

8.10.1 Alt-Doc: Asset Depletion (6 months Asset Statements)

This program is designed for borrowers who have significant verifiable assets and would benefit from alternative loan qualification methods.

Asset depletion can be used as a stand-alone income qualifier or in combination with the following income documentation programs:

- Full Doc
- Bank Statement (12mo,24mo)
- 1099
- P&L
- WVOE

Allowable assets are used to determine or augment qualifying income.

Employment and income are not required to be disclosed on the 1003 loan application (stand- alone Asset Depletion only). If not disclosed, enter "Not applicable to this loan" in the respective fields.

8.10.2 Alt-Doc: Asset Depletion Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DTI for the transaction.

Cash out proceeds from the subject transaction may not be used for qualifying.

8.10.3 Alt-Doc : Asset Depletion Requirements and Documentation

Statements covering the most recent 6 months are required for each asset used in qualifying. Quarterly statements covering the most recent two quarters are acceptable.

8.10.4 Alt-Doc: Assets and Qualification Analysis

Borrower is qualified utilizing the most recent 6 months asset documentation verified: cash in bank (100%), stocks (90%), bonds (90%), IRAs (80%), 401k (80%), mutual funds (90%), and/or
retirement accounts (80%).

The total allowable assets less required reserves are divided by 84 months to determine the qualifying monthly income to be used in calculating the debt to income (DTI).

Assets - Reserves / 84 months = Qualifying Income Total monthly liabilities / Qualifying Income = DTI

8.10.5 Alt-Doc: Eligible Asset Types for Loan Qualification

Considered assets must be comprised of the following readily marketable assets which must be available to the borrower and are limited as follows:

- Bank Deposits – Checking, Saving, Money Market accounts = 100%
- Publicly traded stocks and bonds = 90% (stock options not allowed)
- Mutual Funds = 90%
- Retirement Accounts

- 401(K) plans or IRA, SEP or KEOUGH accounts = 80%
- can only be used if distribution is not already set up
- For eligible asset types, any debt tied to that asset must be netted out. Example: Stocks bought on margin or 401(K) loan against the 401(K) account.
- Assets must be in liquid or semi liquid form, no privately held stock, deferred compensation or non-regulated financial companies.

8.10.6 Alt-Doc: Ineligible Asset Types for Loan Qualification

Ineligible Asset Types

- Business funds
- Non-liquid assets (automobiles, artwork, business net worth etc.)
- Life insurance – Face Value not allowed
- Cash value of a vested life insurance policy is allowed at 100%
- When used for reserves the cash value must be documented but does not need to be liquidated or received by borrower
- Annuities of any type are not allowed
- Cryptocurrency

8.11 Investor Debt Service Coverage Ratio: DSCR

8.11.1 DSCR: Investor DSCR (Debt Service Coverage Ratio)

This program is designed for experienced real estate investors and qualifies borrowers based on cash-flows solely from the subject property.

For maximum LTV as shown on matrices, the borrower must have a history of owning and managing commercial or residential investment real estate for a period of at least 12 months within the most recent 36 months. Proof of this investor experience must be in loan file. See also 8.12.5 DSCR: Professional Investor.

No borrower employment or income to be included on the application.

Borrower must acknowledge the loan is a “business purpose loan” via the Exhibit A: Occupancy Affidavit.

DSCR loans are classified as business loans. Appendix Q and ATR requirements do not apply. First Time Investor is allowed with guideline restrictions 5.4 First Time Investor .

8.11.2 DSCR: Restrictions

See Matrix for acceptable credit, max LTV, reserves, loan amount and DSCR for the transaction. Not eligible for owner occupied or second home.
Pre-payment penalty must be in compliance with the terms and limitations of the applicable state or federal law.

8.11.3 DSCR: Documentation

Income used to qualify borrower is based upon cash flow from subject property. All Single unit appraisals must include a Form 1007 Comparable Rent Schedule.
A 4506-C is NOT required. Purchase unleased 1-4 units:
DSCR is calculated using rent survey (Form 1007) provided by the appraiser.

Purchase or refinances currently leased 1-4 units:

DSCR is calculated using lower of lease agreement or rent survey.

Refinance vacant single unit property:

- Cash-out - Eligible only with documentation of previous rent history within the last 6 months. Utilize rent survey with a 20% vacancy factor to calculate DSCR.
- Rate / Term – Eligible for payoff of purchase mortgage only. Utilize rent survey with a 20% vacancy facor to calculate DSCR.

Refinance 2-4 unit with a vacancy:
Eligible with maximum of 1 vacant unit. Use lower of lease agreements or market survey for leased units. Use market survey for vacant unit to calculate DSCR.

If existing lease agreement(s) show a higher rental amount, the higher rents , up to 110% of market rents may be used if three (3) months documentation is provided (e.g. bank statements, canceled checks).

DSCR Refinance Seasoning:

- Rate / Term – There are no seasoning requirements when refinancing an institutional purchase mortgage.
- If owned less than six (6) months LTV/CLTV is based on purchase price.
- If owned less than 12 months but more than six (6) months, the LTV/CLTV is based on the lower of the appraised value or purchase price plus documented improvements.

Improvements documented with plans or work performed lists, permits, contracts, receipts supporting all work completed.

- Cash-Out
- Not available with less than six (6) months seasoning.
- If owned less than 12 months but more than six (6) months, the LTV/CLTV is based on the lower of the appraised value or purchase price plus documented improvements.
- Improvements documented with plans or work performed lists, permits, contracts, receipts supporting all work completed.

Short term leases

Refinance transactions:

- Use the leases used throughout the year and average over the 12 month period. If there are months where the property is vacant, use zero for that month in the average. The average should be supported by the comparable rent schedule (within reason).
- VRBO/Air BNB is allowed on DSCR:
- If subject property leased on a short term basis utilizing an on-line service such as VRBO/Air BNB; gross monthly rents can be determined by using a 12-month look back period and either 12-monthly statements or an annual statement provided by the on-line service to document receipt of rental income. If documentation cannot be provided covering a 12-month period, the property will be considered unleased.

An expired lease agreement that has verbiage that states the lease agreement becomes a month- to-month lease once the initial lease/rental term expires is allowed.

All borrowers must provide the following:

- A complete schedule of all real estate owned, indicating financed and "free and clear" properties
- Mortgage/lien rating for each financed property
- Documented proof that lien-free properties are truly "free and clear" of all liens

8.11.4 DSCR: Qualification

Loan qualification is based on Debt Service Coverage Ratio (DSCR) for the subject property.
Full Amortization:

- Use Note Rate to calculate PITIA for use in Debt Service Coverage Ratio (DSCR).

Interest Only:

- Use Note Rate Initial Interest Only payment to calculate ITIA for use in Debt Service

Coverage Ratio (DSCR).
Debt to Income (DTI) ratio is not calculated. DSCR (Debt Service Coverage Ratio)
The debt service coverage ratio is calculated by taking the gross rents divided by the PITIA or ITIA
for Interest Only of the subject property. Highlights below, see Matrix for additional details.

- No vacancy factor for leased properties.
- Use the Note Rate to calculate PITIA or ITIA (see Matrix for details).
- Rents are derived from the lesser of the rental/lease agreement or the rent survey (Form 1007).
- See Matrix for minimum DSCR requirements.

8.11.5 DSCR: Professional Investor

Provides reduced documentation on non-subject properties for the borrower who has a strong investor track record exhibited by the following

- Currently owns 5 properties (Primary residence included).
- Has five (5) years credit depth reported on credit report.
- At least three (3) mortgages are reported on credit report within the last three (3) years.

No minimum months reporting required. No delinquencies allowed on months reported.

Reduced Documentation:

- Mortgage histories on non-subject properties are not required.
- Borrower housing history not required.

Required Information:

- All properties owned by borrower to be listed on REO schedule.
- All information completed on REO schedule (mortgage balances, gross rents, etc.)