

# SERIES 3 – NON-QM PLATINUM & GOLD ELIGIBILITY GUIDELINES

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## 1 OVERVIEW

This Underwriting Manual outlines the requirements for underwriting residential mortgage loans funded by Lendz Financial. This document is an integral part of the loan underwriting process and should be reviewed in conjunction with all potential fundings.

The Underwriting Manual may not include all provisions or documents establishing the relationship between an originator and Lendz Financial, and is not intended to replace, modify, or otherwise alter the terms of a respective counterparty's Seller Agreement or any other applicable agreement.

Lendz Financial seeks to fund residential mortgage loans made to mortgagors with stable incomes and employment histories, and fully verified income and assets. All loans funded by Lendz Financial will be examined and evaluated to determine whether the proposed loans generally conform to these guideline parameters. The qualifying specifications and procedures are meant to serve as a principal foundation to qualify, and each borrower will be reviewed in its entirety on an individual basis.

Loans that do not conform to the provisions of this Underwriting Manual will be comprehensively reviewed by exception only. All applicable mitigating and compensating factors to a policy exception must be fully documented and will be reviewed and considered prior to granting or denying any request for approval.

## 2 UNDERWRITING CRITERIA

The Lendz Financial guidelines are intended to reference and supplement Fannie Mae's Seller Guide. Refer to the Fannie Mae Seller Guide for specific information concerning qualification requirements that are not specifically referenced in the guidelines. All loans must be manually underwritten with the exception of the Flex Underwriting product which will utilize FNMA's Automated Underwriting System (DU®/DO®) and FHLMC's Loan Product Advisor (LPA®).

All Covered Loans must be designated as ATR compliant and must adhere to the standards set forth in the CFPB's Reg Z, Section 1026.43(c).

Federal, State, and Local High Cost Loans are not permitted.

Statement on Suitability

All loans are required to have evidence of agency ineligibility. This may be satisfied through a DU®/DO® or LPA® underwriting findings report in file verifying the loan does not qualify for delivery, or as evidenced on the 1008.

### 3 PROGRAMS

- Platinum and Gold
  - Full Doc – 2 years Income documentation
  - Express Doc – 1-year income documentation
  - Bank Statement – 12- or 24- months Personal or Business bank statements
  - 12/24 Month CPA P&L
  - Flex Underwriting – FNMA DU®/DO® or FHLMC LPA® documentation and Bank Statement Income
    - Refer to section 10.3 for program and guideline details
  - Asset Utilization – Drawdown of liquid assets to determine qualifying income

### 4 PRODUCT ELIGIBILITY

- 5/6 ARM (30 and 40 Year Amortization)
- 5/6 ARM I/O (30 and 40 Year Amortization)
- 7/6 ARM (30 and 40 Year Amortization)
- 7/6 ARM I/O (30 and 40 Year Amortization)
- 30yr Fixed
- 30yr Fixed I/O
- 40yr Fixed
- 40yr Fixed I/O

#### 4.1 PROUCT MATRIX

Please reference separate LENDZ FINANCIAL Platinum, Gold, and Flex Underwriting product matrices.



### 4.2 ADJUSTABLE RATE CRITERIA

Product	Index	Margin	Initial	Periodic	Ceiling	Minimum Interest Rate Floor
5/6 ARM	30-day SOFR	<b>4%</b>	2%	1%	5%	Margin
7/6 ARM	30-day SOFR	<b>4%</b>	5%	1%	5%	Margin

#### 4.2.1 ASSUMABILITY

- ARM products are assumable after the fixed rate period with prior approval and qualification

#### 4.2.2 INTEREST ONLY

Platinum	Purchase: Max 85% LTV/CLTV Rate & Term and Cash-Out: Max 80% LTV/CLTV Min 700 FICO
Gold	Purchase/Rate & Term/Cash-Out: Max 80% LTV/CLTV Min 680 FICO
Flex Underwriting	Purchase/Rate & Term: Max 80% LTV/CLTV Cash-Out: Max 75% LTV/CLTV

Interest Only Period – 40 Year Interest Only = 10 year IO then 30 year amortization; Max 80%;  
30 Year Interest Only = 10 year IO then 20 year amortization; Max 85%

#### 4.2.3 QUALIFYING RULES

ARM Qualifying Rate	Greater of Note Rate or the Fully Indexed Rate (rounded) Flex Underwriting – see Flex Underwriting section
Interest Only	Qualifying payment for I/O must include principal component Calculate payment based on: <ul style="list-style-type: none"> <li>the ARM qualifying rate or</li> <li>the fixed rate AND</li> </ul>

	<ul style="list-style-type: none"> <li>a term that equals the amortization term (i.e. 360 months for 40 year I/O).</li> </ul>
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### 4.3 LOAN AMOUNT

Min Loan Amount (All Programs)	\$125,000
Max Loan Amount	Platinum - \$3,500,000 Gold - \$3,000,000 Flex Underwriting - \$2,500,000

### 4.4 LOAN-TO-VALUE

Program	Max LTV/CLTV
Asset Utilization	Primary and 2 <sup>nd</sup> Home - 80%
	Cash Out – max 60% LTV/CLTV
	Investment – 65%
	Flex Underwriting – Per FNMA DU®/DO® or FHLMC LPA®
Bank Statement	90% Purchase Only
	Flex Underwriting – 80%
Bank Statement Calculation	Expense Factor <50%: 85%
	Third Party Expense Ratio: 80% Purchase/R&T; 75% Cash-Out Refinance
	CPA Profit & Loss: 80% Purchase/R&T; 75% Cash-Out Refinance
Flex Underwriting	80%
Property Tax Escrows Required	>85% LTV
Non-Permanent Resident Alien	80%
Warrantable Condo	85%
	Platinum & Gold - 80%

Non-Warrantable Condo	Flex Underwriting – 80%
Rural Properties	Primary – 75% LTV/CLTV
	2 <sup>nd</sup> Home – 70% LTV/CLTV
Properties with Business and Residential Use	10% LTV/CLTV reduction (Floor of 65% LTV/CLTV)
Declining Markets as defined by the appraisal	5% LTV/CLTV reduction from max borrower qualifies for – Floor: 75% Purchase; 70% Refinance
Gift of Equity	Platinum and Gold - 75%
	Flex Underwriting – Per FNMA DU®/DO® or FHLMC LPA®
Cash-out Seasoning ≥6 <12 Months	Owner Occupied - Max 75%
	Second Home – Max 70%
	Investment – Max 70%

#### 4.5 DEBT-TO-INCOME RATIO

Platinum and Gold	> 85% LTV/CLTV	45%
	≤ 85% LTV/CLTV	50%
Flex Underwriting	Per DU®/DO®/LPA® (Max 50%)	

#### 4.6 AGE OF DOCUMENTS

All credit documents including credit report, income docs, and asset statements must be dated no more than 120 days prior to the note date.

- Appraisals are good for 120 days from effective date to note date. Any appraisal seasoned greater than 120 days will require a recertification of value. A recert of

- value will be permitted up to 180 days
- Updated documentation may be required at underwriter discretion
  - A 10 calendar day variance over the stated age of documents is allowed to accommodate closings.

#### 4.7 PREPAYMENT PENALTIES

- Not permitted on primary residences or second homes

#### 4.8 HPML

- Escrows for taxes and insurance will be required for 5 years.
- Two appraisals are required to be delivered for flip transactions as defined by the CFPB.
- Hybrid appraisal ineligible

### 5 UNDERWRITING CRITERIA

#### 5.1 U.S. CITIZENS

If one borrower on the transaction is a US citizen, Non-Permanent resident guides do not apply.

#### 5.2 PERMANENT RESIDENT

- Permanent Resident Aliens are individuals who permanently reside in the United States
- A legible front and back copy of the borrower(s) valid Green Card.

#### 5.3 NON-PERMANENT RESIDENT

- A Non-Permanent Resident Alien is a non-U.S. citizen authorized to live and work in the U.S. on a temporary basis. Non-Permanent Resident Alien borrowers are eligible for all products and programs.

- If one borrower on the transaction is a US citizen, Non-Permanent resident program restrictions do not apply.

Program Restrictions:

- Max 80% LTV/CLTV
  - 1-2 units
  - Primary Residence only
  - Purchase and Rate/Term Refinance Only
  - Borrowers with diplomatic immunity are ineligible
  - DACA recipients are ineligible
- Copies of the borrower’s passport and unexpired VISA permitting employment in the United States is required.
    - If VISA renewal is in process or delayed, provide application for extension or renewal (adjustment of status).
    - Acceptable alternative documentation to verify visa classification is an I-797 form (Notice of Action) with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers unable to provide evidence of lawful residency status in the U.S. are not eligible for financing.
    - A valid employment authorization document (EAD) must be obtained if the visa is not sponsored by the borrower’s current employer. If the visa will expire within 3 months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower’s continued employment and continued visa renewal sponsorship (employer on the loan application must be the same as on the unexpired visa).
  - The borrower(s) must have a minimum of 2 years residency and employment
  - All parties involved on the transaction must be screened through exclusionary lists and must be cleared through OFAC's SND list.
  - Borrowers from OFAC sanctioned countries are ineligible
  - Eligible VISA Types :
 

○ E1, E2, E3	○ L-1B, L-2	○ TN-1 Canadian NAFTA
○ G1, G2, G3, G4, G5	○ NATO 1-6	○ TN-2 Mexican NAFTA
○ H1	○ O1	
○ H-1B, H-1C	○ R1	

### 5.4 FIRST TIME HOMEBUYER

- An individual is to be considered a first-time homebuyer who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the 7-year period preceding the date of the purchase of the security property.
- If one borrower on the transaction is not a FTHB, no further restrictions apply.
- FTHB > 85% LTV – not permitted.
- Borrowers living rent free, see section 9.3.
- Flex Underwriting – follow FNMA or FHLMC Seller Guide.

### 5.5 FIRST TIME INVESTORS

A First Time Investor is defined as a borrower who has not owned at least one commercial or residential investment property in the United States for at least 12 months in the last 3 years. Borrowers living rent free, see section 9.3.	
Platinum and Gold	Eligible with a 5% LTV/CLTV reduction based on LTV, FICO & Loan Amount
Flex Underwriting	Follow FNMA or FHLMC Seller Guide

### 5.6 NON-OCCUPANT CO-BORROWERS

Eligible with Platinum, Gold

Platinum Program Restrictions:

- Single unit only
- Cash-Out not eligible
- Second Homes not eligible

No program restrictions for Gold or Flex Underwriting – Follow FNMA/FHLMC Seller Guide

- Non-occupant co-borrowers are credit applicants who do not occupy the
  - Must sign the mortgage or deed of trust
  - Must not have an interest in the property sales transaction, such as the property

- seller, builder, or real estate broker
- Blended ratios allowed

## **5.7 LIMITED PARTNERSHIPS, GENERAL PARTNERSHIPS, CORPORATIONS, LIMITED LIABILITY COMPANIES**

- No layering of entities (i.e. LLC whose member(s) are a trust)
  - Personal guarantor required - Personal Guarantor must also sign closing documents and disclosures
  - All members of the entity must be a natural person
  - Final loan docs may not be signed with a POA
- Non-profit 501 c3 – ineligible

## **5.8 INTERVIVOS REVOCABLE TRUSTS**

- Permitted in accordance with Fannie Mae

## **5.9 MAXIMUM FINANCED PROPERTIES / LENDZ FINANCIAL EXPOSURE LIMITS**

- Platinum and Gold - There is no limit to the maximum number of financed properties.
- Flex Underwriting – Follow FNMA DU®/DO® or FHLMC LPA®
- Commercial properties and residential > 4 units excluded from calculation
- LENDZ FINANCIAL exposure to a single borrower/guarantor limited to \$5mm UPB or 10 loans.

## **5.10 INELIGIBLE BORROWERS**

- Irrevocable, Land or Blind Trusts
- Vesting in retirement vehicles
- Foreign Nationals
- Asylum applicants
- Any parties to a transaction listed on HUD's Limited Denial of Participation (LDP) list, or the federal General Services Administrative (GSE) Excluded Party lists
- Borrowers with diplomatic immunity
- Borrowers without a valid Social Security Number
- Borrowers party to a lawsuit
- DACA Recipients

## 6 OCCUPANCY ELIGIBILITY

### 6.1 PRIMARY RESIDENCE

- A primary residence is a 1-3-unit property that the borrower(s) currently reside in (refinance) or intend to occupy (within 60 days) as his or her principal residence
- Generally, borrowers may not own an additional single-family residence of equal or greater value than subject property. Significant equity in a departing residence should be considered in overall credit analysis and cannot be pared with an exception.
- Characteristics that may indicate that a property is used as a borrower's primary residence include:
  - Is occupied by the borrower for the major portion of the year
  - Is in a location relatively convenient to the borrower's principal place of employment
  - Is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions.
  - Relocation in excess of 200 miles of self-employed borrowers with operating business is not permitted unless business is predominately run out of the home.

### 6.2 SECOND HOMES

#### Program Restrictions:

- Single unit only
- Gift funds ineligible
- A property is considered a second home when it meets all the following requirements:
  - Must be located a reasonable distance away from the borrower(s) principal residence
  - Must be occupied by the borrower(s) for some portion of the year
  - Single unit only
  - Must be suitable for year-round occupancy
  - The borrower(s) must have exclusive control over the property.
  - Unit may be rented up to 30 days per year.

### 6.3 NON-OWNER OCCUPIED



Program Restrictions:

- Gift funds ineligible.
- Rural properties ineligible
- PLATINUM – Loan Amounts  $\geq$ \$2,000,000 permitted on:
  - 2-4 unit properties
- 1-4 units in California only
- A Landlord, Commercial or similar rental income hazard insurance policy is required for all subject property non-owner- occupied properties.
- Subject property with short term rental income is not permitted.

**7 ELIGIBILITY****7.1 PURCHASE**

- The lesser of the purchase price or appraised value is used to calculate LTV/CLTV.
- A copy of the fully executed purchase contract and all attachments and addenda should be included
- Inspection reports are not required unless the appraisal suggests further investigation (e.g. termite reports)
- Sale and leaseback agreements will not be permitted to exceed 60 days from closing date.
- Flip Transactions – see section 7.10.
- Assignment of contract with 3rd party fees (no wholesalers/finders) are not permitted

**7.2 RATE/TERM REFINANCE**

- A Rate/Term Refinance transaction is limited to the payoff of:
  - a refinance first mortgage seasoned 6 months
  - a purchase, first and second mortgage (if applicable) used as purchase money
  - a closed end or HELOC mortgage that has been in place for more than 6 months and/or not having any draws greater than \$2,000 in the past 6 months
    - Withdrawal activity must be documented with a transaction history from the HELOC
- closing costs and prepays
- a court ordered buyout settlement
- Limited cash to the borrower must not exceed the greater of \$2,000 or 1% of the loan amount
- Borrowers financing the payment of real estate taxes that are more than 60 days

delinquent is considered cash out, per FNMA.

- If the property is owned less than 6 months at the time of application date, the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value. The prior settlement statement will be required for proof of purchase price. Proof of improvements is required. Purchase appraisal or original listing photos required along with schedule of improvements.
  - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership). Use appraised value
  - If the borrower acquired the property at any time as a gift, award, inheritance or other non-purchase transaction, the LTV/CLTV will be based on the current appraised value. The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership.
- Refinances to Buy Out An Owner's Interest. Use appraised value
  - A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
  - Court ordered All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
  - Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to LENDZ underwriting guidelines.

### 7.3 CASH-OUT REFINANCE

- A Cash-Out Refinance transaction may pay off an existing mortgage(s) with a minimum of 6 months seasoning or create a new lien if the property is owned free and clear.

- Ownership seasoning 6-12 months – Max 75% for Owner Occupied, Max 70% for 2nd homes and non-owner occupied.
- The borrower must have owned the property for a minimum of 6 months prior to the Note date.
- Seasoning = borrower’s purchase closing date to application date.
- Delayed financing proceeds are eligible assets for Asset Utilization.
- There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
- If the borrower acquired the property at any time as a gift, award, inheritance or other non-purchase transaction, the LTV/CLTV will be based on the current appraised value. The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership
- Borrowers financing the payment of real estate taxes that are more than 60 days delinquent is considered cash out, per FNMA.
- The borrower can receive funds at closing as long as they do not exceed the program requirements

Max Cash Out		
	>70 LTV/CLTV	≤70% LTV/CLTV
All programs	\$1000,000	Inlimited

**7.4 PROPERTIES LISTED FOR SALE**

- Primary, Second Homes, and Investment properties without a Prepayment Penalty:
  - Properties that have been listed for sale within the past 6 months from the loan Note date are not eligible
  - Properties listed for sale by the borrower within the last 12 months are not eligible for cash out
  - Investment properties with a Prepayment Penalty: Properties listed for sale by the borrower within the last 12 months are eligible for rate term per matrix LTV limits, and for cash out with a max 65% LTV/CLTV.
  - LTV based on lower of last listing price or current appraised value

## 7.5 DELAYED FINANCING

- Delayed financing can be qualified and priced as rate/term refinances.
- Delayed financing (on properties purchased by the borrower with cash and owned <12 months) are permitted if the original transaction was arm's length.
  - provide settlement statement from purchase confirming no financing used to acquire property
  - LTV will be calculated based on Purchase Price. No documented improvements permitted.
  - purchase funds are documented
    - If gift funds were used, the borrower may only finance the amount put into the transaction, excluding gift.
- The LTV/CLTV will be based on the lesser of the original purchase price or current appraised value. The prior settlement statement will be required for proof of purchase price.
- Delayed financing cash out proceeds are acceptable with Asset Utilization.
- An AIR compliant purchase appraisal may be used for this refinance if within the age of documents guideline section.

## 7.6 CONSTRUCTION TAKE OUT/CONSTRUCTION TO PERM

- The permanent financing (rate/term refinance) of a construction loan is eligible with the following conditions:
  - If the lot was acquired 12 or more months before applying for the subject loan, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
  - If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of (i) the current appraised value of the property and (ii) the total acquisition costs
- A builder refinancing out of a construction loan, is limited to investment only, with a pre-payment penalty

## 7.7 LEASE OPTIONS TO PURCHASE

- Primary residence only

- Borrowers may apply a portion of the rent paid to their required down payment, closing costs or minimum borrower contribution if the rent credits were agreed upon in the original Lease Purchase Agreement.
- Credit for the down payment is determined by using the lesser of the rent credits agreed to or by calculating the difference between the market rent and the actual rent paid for the last 12 months.
- The market rent is determined by the appraiser in the appraisal report for the subject property.
- Documentation Requirements :
- A copy of the notarized rental/purchase agreement evidencing a minimum original term of at least twelve (12) months, clearly stating the monthly rental amount, and specifying the terms of the lease.
- Copies of the Borrower's cancelled checks or money order receipts for the last 12 months evidencing the rental payments.
- The Closing Disclosure must show the actual purchase price as reflected on the Lease Purchase Agreement, while the loan-to-value will be based on the appraised value.

### 7.8 CONTINUITY OF OBLIGATION

- An acceptable continuity of obligation exists when any of the following are present:
  - At least one borrower obligated on the new loan must be a borrower obligated on the existing loan being refinanced;
  - At least one borrower must have been on title for a minimum of six months, and has made the most recent six months payments
  - At least one borrower must be on title and has made the most recent 12 months documented payments
  - At least one borrower has recently inherited or was legally awarded the property through a divorce or separation;
  - Continuity of Obligation is met when a borrower is at least 25% owner of an entity and is refinancing from a natural person to an entity or visa versa.

### 7.9 SUBORDINATE FINANCING

- New subordinate financing (institutional) allowed for primary residence purchase transactions only.
- Seller carried subordinate financing is ineligible

- Existing subordination is permitted on refinances
- All subordinate loans must be considered when calculating the Borrower's DTI
- For closed-end fixed rate, fully amortizing simultaneous loans, the qualifying payment is the monthly payment
- If a HELOC is present the CLTV/HCLTV must be calculated by dividing the sum of the original loan amount of the first mortgage, the amount of the HELOC (whether or not there have been any draws), and the unpaid principal balance of all other subordinate financing by the lower of the property's sales price or appraised value.
- If the subordinate financing is a HELOC secured by the subject property, monthly payments equal to the minimum payment required under the HELOC terms considering all draws made on or before closing of the subject transaction
- A HELOC with zero balance does not require a minimum payment be applied.

### 7.10 FLIP TRANSACTIONS

- On a purchase transaction when the home is being resold within 360 days of seller's purchase date, the transaction is considered a flip (based on the day the borrower signs an initial purchase agreement)
- Flips with resale prices in excess of the following will require a pre-approval:
  - More than 10% increase within 90 days
  - More than 20% increase from 91 to 180 days
- Current purchase transaction must be listed with a realtor on Multiple Listing Services
- Bank owned REO and corporate relocations are eligible and not considered a flip transaction
- Second Appraisal is required for HPMLs if:
  - >10% increase in sales price if seller acquired the property in the past 90 days
  - >20% increase in sales price if seller acquired the property in the past 91-180 days

### 7.11 1031 EXCHANGE

- Funds held by a 1031 administrator/agent are permitted for down payment and closing costs.
- Allowed on investment purchases only.
- Reverse 1031 exchanges not allowed.

- Must be in compliance with Internal Revenue Code Section 1031
- Excess proceeds cannot be used to satisfy reserve requirements unless liquidated
- Documented by accommodator instructions, fully executed exchange agreement at closing, and settlement statement.
- NOTE: 2-4-unit properties where one of the units is occupied by the customer are not considered investment properties and therefore are not eligible.

### 7.12 NON-ARM'S-LENGTH

- Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. The appraiser must be informed of the relationship and address any impact on market value.
- The following non-arm's length transactions are eligible with proper documentation:
  - Sale or transfers between members of the same family (transaction may not be due to any adverse circumstances)
  - Renters purchasing from current landlord
  - Property seller acting as his or her own real estate agent
  - Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history)
  - Realtor cannot buy own listing as well as seller cannot buy realtor's listing
  - Borrower is a mortgage broker or loan officer, or works for submitting broker
  - Borrower is related to realtor and/or loan officer who is representing them ONLY.
- Non-arm's length transactions are subject to all the following requirements:
  - Primary residence only
  - Relationship letter required between buyer and seller unless confirmed in the sales contract
  - Borrower to provide a copy of the cancelled earnest money check paid to the property seller (if applicable)
  - Underwriters must be satisfied with any occupancy red flags
  - All liens on title to be paid in full and reflected on the settlement statement
  - Lesser of sales price or current appraised value to be used to calculate the LTV/CLTV
  - Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
  - Borrower may not be an owner of a business entity selling the subject property

### 7.13 INELIGIBLE TRANSACTIONS

- Construction Loans

- Non-Arm’s length (not addressed in previous section)
- Builder Bailout & Model leasebacks
- Conversion Loans
- Community down payment assistance / equity sharing
- Borrower/builder refinance of construction loans or free and clear are ineligible unless investment property with a Prepayment Penalty
- Reverse 1031 exchanges
- Texas (a)(6) Transactions (Approval Required – Please contact LENDZ)

### 8 COMPENSATING FACTORS

Including but not limited to the following:

▪ FICO score above minimum by 20 points or higher	▪ 0 X 30 X 24-month housing history
▪ DTI below max by 5% or greater	▪ 5 years minimum in subject property
▪ PITIA reserves above minimum by 6 months or higher	▪ Job stability of 5 years or more
▪ Reduction in housing payment by 10% or greater	▪ Stable ancillary income sources for borrower not being used for qualifying
▪ **LTV is not a compensating factor for primary residence**	▪ Residual Income

### 9 CREDIT ELIGIBILITY

#### 9.1 CREDIT EVENTS

Housing Event = Foreclosure, Short Sale, Deed in Lieu, Default Modification, Notice of Default or 120+ Delinquent

	Seasoning
<b>Platinum</b>	4 Years
<b>Gold</b>	2 Years



1 year – additional LLPA applied
----------------------------------

- Housing Event = Foreclosure, Short Sale, Deed in Lieu, Default Modification, Notice of Default or 120+ Delinquent
- Housing event affecting both a first and second on same property is considered one event
- Events include all occupancy types – Primary, 2nd Home & Investment Properties
- Seasoning is from the date of discharge or property resolution (completion date), as of the note date
- Modification commences at inception
- Foreclosures included in bankruptcy permitted based on BK discharge date if the borrower has vacated the property
- Timeshares including delinquencies are treated as installment loans and not a credit event.
- FLEX Underwriting – Refer to section 10.3 for details
- LOE required for any recent credit event less than 4 years.
- Multiple credit events not permitted
- A borrower who holds title only to a property that has a credit event is considered the borrower’s credit event and subject to these guides

**9.2 BANKRUPTCY**

	<b>Bankruptcy Seasoning</b>
<b>Platinum</b>	4 Years
<b>Gold</b>	2 Years
	1 year – additional LLPA applied

- Bankruptcy includes Chapter 7 and 11, based on discharge or dismissal date and chapter 13 paid as agreed based on filed date.
- BK must have been dismissed or discharged prior to application
- Ch. 13 BK – payment history shows no 30 day lates
- Multiple BK filings per person are not eligible (an amended filing is not considered multiple filings)
- Flex Underwriting – Refer to section 10.3 for details
- LOE required for any recent credit event less than 4 years.

### 9.3 HOUSING HISTORY

<b>Platinum</b>	0 x 30 x 12
<b>Gold</b>	0 x 60 x 12

- Only one borrower needs to meet housing history requirement
- All borrowers must be current on mortgage or rent at loan application
- Property tax liens and delinquent HOA dues at application will require a pre-approval
- Subject loan primary residence: housing history on primary only
- Subject loan Second or Investor property: housing history includes subject property and primary residence
- Mortgage ratings on rental property is required if income is being used to qualify
- 12 months proof of payment via cancelled checks, bank debits (highlighted on statements) or institutional VOR/VOM. Carbon copies or handwritten rent receipts are not acceptable as bank records.
- Other REO VOM's not required if not on credit (no private VOMs required unless using income to qualify)
- Rent free or incomplete housing history
  - No open and active mortgages reporting on initial credit or free and clear properties will require pre-approval and is generally limited to max 80% LTV.
  - Open and active mortgage(s) reporting on initial credit for minimum 12 months is permitted to satisfy housing history.
  - A minimum 12 months previous mortgage history reporting on initial credit within the last 12 months is permitted to satisfy housing history.
  - No private VOMs or credit supplements permitted.
  - Rent free from spouse or title only ownership requires institutional VOM or bank records to satisfy primary housing history
- A borrower who sold a home and is temporarily staying rent free until the purchase of a new home is not considered an incomplete housing history. Must document most recent 12-month history prior to the sale of departing residence
- Flex Underwriting – Refer to section 10.3 for details

### 9.4 FORBEARANCE OR DEFERRAL

- Borrowers with a Covid-19 related forbearance of deferral must have completed the

program and made at least two months payments for a Purchase or Rate/Term Refinance and 6 months payments for a Cash-out Refinance. Documentation from the servicer of the completion is required. The deferred balance may be paid off with the subject property refinance. Primary home in forbearance is ineligible even if subject property is non-owner occupied. Other Real Estate owned limited to 1 property in forbearance is eligible.

### 9.5 BALLOON PAYMENT PAST DUE

- A past due balloon payment is treated as a delinquency (1 x 30) and not a housing event, but only within 180 days of maturity.
- Transaction histories showing payments made and applied on time are considered to have been extended and not considered delinquent

### 9.6 DEFAULTED TIME SHARES

- Timeshares including delinquencies are treated as installment loans and not a housing event.

### 9.7 CREDIT REPORT DETAIL

- A tri-merged in file credit report including scores from Experian, Transunion and Equifax is required
- Credit Report is good for 120 days from credit report date.
- Disputed accounts may require an LOE. An updated credit report not required
- All derogatory revolving and installment accounts > 60 days and all mortgage accounts > 1 x 30, each within 2 years of closing require a full explanation.
- Delinquent credit belonging to ex-spouse - can be excluded if late payments occurred after the divorce/separation, and divorce decree/separation agreement indicates derogatory accounts belong solely to the ex-spouse.

#### 9.7.1. CREDIT REPAIR/RESCORE

- No private credit repair companies allowed.
- Rapid rescore of credit permitted for confirmation of pay down and/or payoff of debt and correction of reporting errors
- Updated credit score permitted for qualifying

9.7.2 SECURITY FREEZE

- A credit freeze may remain if it is reported under one bureau only and a minimum of two scores are present. More than one frozen bureau requires the freeze to be lifted by the borrower and a new report provided.

9.7.3 CREDIT COUNSELING

- Borrowers currently enrolled in credit counseling or debt management plans are not permitted

9.7.4 TRADELINES

- Each borrower must have 2 tradelines or joint borrowers must have a total of 3 tradelines combined, rated at least 12 months, with activity in the last 24 months.
- Tradeline may be opened or closed
- Eligible tradelines cannot have any derogatory history in previous 24 months
- Current housing not reporting on credit can be considered an open trade if supported by bank records (cancelled checks, debits)
- No authorized user accounts may be used to satisfy minimum tradelines.
- Non-traditional credit is not allowed as an eligible tradeline
- FLEX Underwriting– Per AUS.

9.7.5 CREDIT SCORES

Full Doc Express Doc Asset Utilization	Primary wage earner
Bank Statement	Primary wage earner Borrowers with 50/50 split ownership of the business – highest mid FICO score
Flex Underwriting	Primary wage earner – refer to Section 10.3 for details

- Each borrower’s Qualifying Credit Score is the middle of three or the lesser of two

- No borrower can have a middle FICO score less than 660 in Platinum or 620 Gold
- For refinances, the use of highest score is only eligible if that borrower meets continuity

### 9.7.6 JUDGEMENTS, LIENS, CHARGE-OFFS, COLLECTIONS

- All Judgments affecting title or liens affecting title must be paid
- Non-title charge-offs and collections open <2 years and greater than \$10,000 (individually or aggregate) must be paid
- Medical collections less than \$15,000 are not required to be paid
- IRS tax payment plans approved by the IRS are permitted if current and do not carry a lien on any property.

## 10 INCOME DOCUMENTATION

### 10.1 FULL DOCUMENTATION – TWO YEARS VERIFICATION OF INCOME

#### 10.1.1 WAGE EARNER

##### Document Requirements:

- Wage Earner: Most recent YTD paystub (YTD must cover minimum of 30 days) or Electronic WVOE (i.e. The Work Number) is acceptable
- Two years W2's
  - Tax transcripts in lieu of providing W-2 are eligible.
  - Sellers must provide tax transcripts 4506-C
- Written VOE if needed for the analysis of overtime, bonus or commission.
- IRS 1040s are not required unless also using other sources of income to qualify i.e. interest dividends, capital gains, etc.

#### 10.1.2 1099 BORROWERS

Borrower(s) earning 100% commission or for independent contractors from one or several companies. Minimum history of Self-Employment: Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be considered as effective income. 1099's must be issued to the individual borrower (If the borrower is an entity, the 1099 must reflect the entity as the payer and the borrower as the recipient). Borrower must have 100% ownership of the entity for the period of the 1099 being reviewed.

- 1 or 2 years of 1099s permitted
  - o Qualifying income based on a 12 or 24 monthly average
- Business Expense calculation method
  - o 10% Expense Factor – 90% of gross 1099 earnings
- YTD earnings must be documented to support ongoing receipt of income reflected on 1099s
  - o Checks or a single check stub(s) with YTD totals or;
  - o 3 months Bank statements or;
  - o YTD earnings statements from the 1099 Business
- YTD earnings from deposits must be at least 80% of qualifying income
  - o Earnings impacted by seasonality may be considered with documented compensating factors
- YTD earnings may be averaged with validated 1099(s) with a 25% maximum increase
- Transcripts are required. Alternate evidence required if “No Return Found”.

### 10.1.3 SELF-EMPLOYED BORROWERS

A borrower is considered self-employed if their ownership percentage is  $\geq 25\%$

#### Minimum history of Self-Employment:

- Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be

considered as effective income.

- 1099's must be issued to the individual borrower (If the borrower is an entity, the 1099 must reflect the entity as the payer and the borrower as the recipient). Borrower must have 100% ownership of the entity for the period of the 1099 being reviewed

Document Requirements:

- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- Two years personal & business tax returns (along with all schedules and K-1's)
- Sellers must provide tax transcripts 4506-T
- A year-to-date P&L is required if the application is dated more than 120 days after the end of the business's tax year
- If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns, the P&L is used to determine the stability of that income. The bank statements for the two most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the priors' years tax returns.
- Borrowers recently transitioned from W2 to 1099 and contracted by the same employer in the same position do not require 2 years 1099s if the employer provides documentation the borrower will not be responsible for additional expenses, i.e. contract.
- Borrowers who remained in the same industry but transitioned from W2 to 1099 with a different company must be in current position for at least 1 year.
- Net operating losses may be excluded when evidence on business returns
- A Company name change or re-organization is considered continuous if within last 2 years or restructure (i.e. from sole proprietor to LLC, S-Corp, etc.)
- Self-employed paying themselves W-2 or K-1
  - Self-employed borrower (> 25% ownership) paying themselves by W-2s or K-1s are acceptable. However, the income analysis should not be based on K-1 or W2 Wages. The analysis should be on the business entity, and the net income multiplied by the borrower's ownership % should be used to qualify.
- Declining income – Self-employed

- Declining income over the last 2 years may be utilized for qualifying with signed letter of explanation from the borrower. Lower of the 2 years would then be used to qualify unless the income has stabilized over the most recent 6 months.

## 10.2 EXPRESS DOC- ONE YEAR VERIFICATION OF INCOME

### 10.2.1 WAGE EARNERS

#### Document Requirements:

- Wage Earner: Most recent YTD paystub (YTD must cover minimum of 30 days) or Electronic WVOE (i.e. The Work Number) is acceptable
  - Written VOE if needed for the analysis of overtime, bonus or commission
  - Tax transcripts in lieu of providing W-2 are eligible
  - Sellers must provide tax transcripts 4506-C
- Not permitted as qualifying income- interest, dividends, capital gains, etc.
- IRS 1040s are not required unless also using other sources of income to qualify i.e., interest dividends, capital gains, etc.

### 10.2.2 1099 BORROWERS

Borrower(s) earning 100% commission or for independent contractors from one or several companies

Minimum history of Self-Employment: Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be considered as effective income. 1099's must be issued to the individual borrower (If the borrower is an entity, the 1099 must reflect the entity as the payer and the borrower as the recipient). Borrower must have 100% ownership of the entity for the period of the 1099 being reviewed

- 1 or 2 years of 1099s permitted
  - Qualifying income based on a 12 or 24 monthly average
- Business Expense calculation method
  - 10% Expense Factor – 90% of gross 1099 earnings
- YTD earnings must be documented to support ongoing receipt of income reflected on 1099s



- Checks or a single check stub(s) with YTD totals or;
- 3 months Bank statements or;
- YTD earnings statements from the 1099 Business
- YTD earnings from deposits must be at least 80% of qualifying income
  - Earning impacted by seasonality may be considered with documented compensating factors
- YTD earnings may be averaged with validated 1099(s) with a 25% maximum increase
- Transcripts are required. Alternate evidence required if “No Return Found”.

### 10.2.3 SELF-EMPLOYED BORROWERS

A borrower is considered self-employed if their ownership percentage is  $\geq 25\%$

Minimum history of Self-Employment:

- Income from self-employment is considered stable and effective if the borrower has been self-employed for two or more years. Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be considered as effective income.
- 1099's must be issued to the individual borrower (If the borrower is an entity, the 1099 must reflect the entity as the payer and the borrower as the recipient). Borrower must have 100% ownership of the entity for the period of the 1099 being reviewed

#### Document Requirements:

- Ownership percentage must be documented via CPA letter, Operating Agreement, or equivalent
- One year's personal & business tax returns (along with all schedules and K-1's)
- A year-to-date P&L is required if the application is dated more than 120 days after the end of the business's tax year.
- If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns, the P&L is used to determine the stability of that income. The bank statements for the two most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the priors' years tax returns
- All borrowers must also provide evidence that business has been in existence for at 2 least years via CPA/Tax Professional letter, confirmation from regulatory or state

agency.

- Not permitted as qualifying income- interest, dividends, capital gains, etc.
- Borrowers recently transitioned from W2 to 1099 and contracted by the same employer in the same position do not require 2 years 1099s if the lender provides documentation the borrower will not be responsible for additional expenses, i.e. contract.
- Borrowers who remained in the same industry but transitioned from W2 to 1099 with a different company must be in current position for at least 1 year.
- Net operating losses may be excluded when evidence on business returns
- A Company name change or re-organization is considered continuous if within last 2 years or restructure (i.e. from sole proprietor to LLC, S-Corp, etc.)

**10.3 FLEX UNDERWRITING – DU®/DO®/LPA® AUTOMATED UNDERWRITE**

LENDZ FINANCIAL FLEX program will utilize Fannie Mae Desktop Underwriter® (DU) & Desktop Originator® (DO) or Freddie Mac Loan Product Advisor® (LPA) with the added guideline allowance of Platinum and Gold benefits for ease of process. **The loan will be underwritten to the FLEX program matrix, the DU®/DO®/LPA® (“AUS”) Findings and the overlays noted below. Any items not addressed in this section will default to the FNMA or FHLMC Selling Guides.** This is a Non-QM program.

Refer to LENDZ FINANCIAL Platinum and Gold Matrix for Flex Underwriting LTV/CLTV, occupancy and transaction type allowances.

<p><b>Underwriting Process</b></p>	<ul style="list-style-type: none"> <li>▪ FNMA DU®/DO® or FHLMC LPA® is required                             <ul style="list-style-type: none"> <li>○ <b>References to “AUS” throughout this document collectively refer to FNMA DU®/DO® or FHLMC LPA® Findings</b></li> </ul> </li> <li>▪ For underwriting guidelines not addressed below, please reference the Fannie Mae or Freddie Mac Seller Guide for details.</li> </ul>
<p><b>DU®/DO®/ LPA® AUS Requirements</b></p>	<ul style="list-style-type: none"> <li>▪ Approve/Eligible, LPA® Accept</li> <li>▪ Approve/Ineligible, LPA® Caution (due to loan amount, loan structure, Interest Only, property (non-warrantable condo) and credit event.                             <ul style="list-style-type: none"> <li>○ Refer to Credit Event section for details</li> </ul> </li> <li>▪ Note: Refer or Caution findings will not be eligible for delivery to LENDZ FINANCIAL, however may be eligible under LENDZ FINANCIAL Platinum or Gold Program as a manual underwrite.</li> </ul>
<p><b>Products</b></p>	<p>5/6 ARM, 5/6 ARM I/O, 7/6 ARM, 7/6 ARM I/O, 30Yr Fixed, 30Yr Fixed I/O, 40 Yr</p>

	Fixed, 40Yr Fixed I/O, 40 Yr ARM and 40Yr I/O ARM
<b>Qualification</b>	<p><u>5/6 ARM</u> – qualify at the greater of the note rate + 2% or the fully indexed rate.</p> <p><u>7/6 ARM</u> – qualify at the greater of the note rate or the fully indexed rate.</p> <p><u>Interest Only</u> – qualify at the note rate based on fully amortizing Principal and Interest payment during the principal repayment period.</p> <ul style="list-style-type: none"> <li>▪ Interest Only payment cannot be used to qualify.</li> <li>▪ Qualify based on a term that equals the amortization term (i.e. 360 months for 40 year I/O).</li> </ul>
<b>Minimum Loan Amount</b>	\$125,000
<b>Max Loan Amount</b>	\$2,500,000
<b>DTI</b>	Per AUS (max 50%)
<b>Min FICO (refer to matrix)</b>	Platinum – 660 Gold – 640 Qualifying FICO – Primary wage earners FICO used for pricing & eligibility
<b>Reserves</b>	Per AUS Cash out may be used as reserves
<b>Assets</b>	Per AUS Cash out may be used as reserves
<b>Borrower Eligibility</b>	All borrowers must have a valid SSN. ITIN and Foreign Nationals are not allowed.
<b>Min Borrower Contribution</b>	Per FNMA/FHLMC Selling Guide Owner or Second home, no minimum borrower contribution required. May be all gift. Investment properties; no gifts allowed. Must be all borrower’s own funds.
<b>Max Cash Out</b>	Please refer to max cash out for Platinum and Gold Per FNMA/FHLMC Selling Guide – R/T refinance max cash back is the lesser of 2% of the loan balance or \$2,000. Per FNMA/FHLMC Selling Guide – Cash out can be used as reserves.
<b>Cash Out Seasoning</b>	Property must have been purchase at least six months prior to application date
<b>Continuity of Obligation</b>	Follow FNMA/FHLMC Selling Guide – Borrower must be on title at time of application
<b>Income Documentation</b>	<ul style="list-style-type: none"> <li>▪ Follow AUS findings with minimum 1-year verification of income</li> <li>▪ Electronic WVOE (i.e. The Work Number) is acceptable. Vendor must be an approved Day 1 Certainty vendor.</li> <li>▪ LENDZ FINANCIAL Bank Statement product is eligible with FLEX features (refer to bank statement/CPA P&amp;L guidelines)</li> </ul>

<b>Asset Utilization</b>	Follow FNMA/FHLMC Selling Guide		
<b>Retirement/ Annuity Income</b>	Per FNMA/FHLMC Selling Guide		
<b>Credit Events</b>		Short Sale, Foreclosure, Bankruptcy, 120+	12 Month Housing History
	<b>Platinum</b>	4 Years	1 x 30 x 12 (per AUS) (no rolling)
	<b>Gold</b>	2 Years	0 x 60 x 12
	<b>Flex uw</b>		WVOM/WVOE per AUS
	<p>For loan casefiles with credit events outside of FNMA allowances, "Extenuating Circumstance (EC)" override in DU®/DO®/ LPA® may be used. The loan must still fall within Platinum or Gold requirements for seasoning.</p> <p>The stricter of FNMA Extenuating Circumstance seasoning guidelines must be met:</p> <ul style="list-style-type: none"> <li>▪ FNMA foreclosure seasoning is 3 years (i.e. a borrower with a foreclosure &lt;3years will be required to qualify on the LENDZ FINANCIAL Gold Program)</li> <li>▪ FNMA EC guidelines for a foreclosure do not allow the following transactions:                             <ul style="list-style-type: none"> <li>▪ 2nd Home and NOO Purchases</li> <li>▪ Cash Out</li> <li>▪ Note: These would be eligible under the LENDZ FINANCIAL Platinum and Gold Programs Documentation requirements:                                     <ul style="list-style-type: none"> <li>▪ LOE confirming nature of the event(s) that led to the bankruptcy or foreclosure-related action required.</li> <li>▪ Note: LENDZ FINANCIAL will adhere to the reduced waiting period, we will obtain an LOE describing the credit event, and the borrower will not be required to submit any documentation (i.e. death certificates, job termination notices, medical records...)</li> </ul> </li> </ul> </li> </ul>		
<b>Tradelines</b>	AUS findings		
<b>Age of Documentation</b>	120 days		
<b>Subordinate Financing</b>	Per AUS - Max CLTV per product matrix applies		

<b>Property Eligibility</b>	Single Family Residence (attached and detached) PUDs (attached and detached) 2-4 Units Fannie Mae warrantable condominiums Non-Warrantable Condos Eligible with an LLPA Max 10 acres – Per LENDZ FINANCIAL UW Manual Rural Properties are eligible per LENDZ FINANCIAL UW manual Live/Work Condo – Per FNMA/FHLMC Selling Guide Mixed Use – eligible per LENDZ FINANCIAL UW manual	
<b>Properties Recently Listed for Sale</b>	Per AUS	
<b>Vesting in LLC/ Corp/Individual trust</b>	Eligible Refer to LENDZ FINANCIAL guidelines for details	
<b>Max Financed Properties</b>	Follow FNMA/FHLMC Selling Guide Principal residence – No Limit Second Home/Investment – Max 10. For borrowers with 7-10 financed properties, the minimum FICO requirement is 720	
<b>Appraisal</b>	Platinum	Loan amount ≥ \$2,000,000 and >65% LTV/CLTV – 2 full appraisals
	Gold	1 Full appraisal required for all transactions
	All appraisals require a third-party desk review <ul style="list-style-type: none"> <li>For CU scores ≤ 2.5 – no additional review is required</li> </ul> When two appraisals are required, an additional desk review product is not required. Transferred appraisals are permitted. Hybrid Appraisals permitted. See Platinum and Gold requirements.	
<b>FNMA/FHLMC Program Restrictions</b>	Fannie Mae and Freddie Mac specific program and eligibility are not allowed, including but not limited to: Student Loan Refinance, HomeStyle, HARP, DU®/DO® Refi Plus, and Home Ready	
<b>Pre-Payment Penalty</b>	Applies to all Investment Properties Hard Prepayment penalties are required on investment property transactions when permissible by state law. Standard Prepayment Penalty Term – Minimum 1 year for all NOO (see rate sheet for details).	

### 10.4 BANK STATEMENTS

- The bank statement program is designed for active, U.S. based operating businesses.

Passive income from crowdfunding, real estate investors (with fewer than 10 residential units), venture capitalists, asset speculation, day trading and the like are considered ineligible from business bank statement income.

- Real Estate Investors with fewer than 10 residential units are eligible under Full Doc using lease agreements and proof of rents received

#### Document Requirements:

- 12-or 24- months personal or business bank statements
  - Bank statements should be most recent available at time of application but never more than 45 days prior to application.
  - Transaction history printouts are generally not acceptable.
  - Multiple bank accounts may be used. More than 3 separate business accounts must use personal bank statements.
  - Most recent 3 months deposits should generally not represent the majority of annual income.
- Business Narrative
  - Borrower must provide a business narrative which includes detail related to the size/scope and operating profile of the business, including the following:
    - Description of Business/Business Profile
    - Locations
    - Number of Employees/Contractors
    - Description of Goods/Materials
    - Materials/Trucks/Equipment
    - Commercial or Retail client base
  - An internet search of the business is required to support the business narrative
    - Underwriter certification (or notation on the 1008) if there are no returns when attempting an internet search

#### Documentation Analysis:

- Unusually large deposits in bank accounts being used to qualify may require a letter of explanation or evidence they are business related
- Declining Income may require an LOE
- NSF's should be covered with deposits shortly after they are incurred.

Business requirements:

- Validation of a minimum of 2 years existence of the business from one of the following: Business License, Letter from Tax Professional, Secretary of State Filing or equivalent.
- Less than 2 years self-employment history can be considered with documentation of a minimum of two years employment history in the same line of work or a related profession. Less than one year may not be considered as effective income.
- Ownership percentage must not be less than 25% and be documented via CPA letter, Operating Agreement, or equivalent
- A company name change or re-organization is considered continuous if within last 2 years or restructure (i.e. from sole proprietor to LLC, S-Corp, etc.)
- Any change of ownership percentage must be seasoned at least 12 months
- Borrower paid by multiple 1099s are considered Self Employed and are qualified using 12 or 24 months bank statements.

**10.4.1 PERSONAL BANK STATEMENTS**

Option 1: Personal bank statements with evidence of business bank account.

- 100% of business deposits in a personal bank account can be used.
- Provide most recent 2 months business statements to validate deposits are from the borrower owned business bank account. (Only giving credit for transfers from the business; or receipt of payroll from business and distribution only)

Option 2: Personal bank statements with no business bank account

Comingled business and personal with no business account for non-service businesses are considered as business bank statements with the appropriate expense factor (20% Service Business, 50% non-service business) applied.

- Deposits from self-employment business only, will be included into bank statement calculation
- A trend of repeated expense not reported on the credit report may need additional explanation and may be considered a liability

Qualifying Income:

- Qualifying is total eligible deposits divided by 12 or 24 months

**Qualifying Income:**

- Qualifying deposits divided by 12 or 24 months (Personal bank statement average (total eligible deposits / 12 or 24 months))

**10.4.2 BUSINESS BANK STATEMENTS**

- Transfers from other bank accounts into the business bank accounts will require conclusive evidence that the source of transfer is business related income
- Borrowers who are using more than 3 separate bank accounts must qualify using personal bank statements
- Customary business debt such as auto or a business credit card may be excluded from the DTI when evidenced of 12 months payments made from the business statements. Does not apply to 20% Expense Ratio method. Mortgage debt may not be excluded from DTI when paid by the business.
- Qualification (must use one of the following two options):
  - The expense ratio should be reasonable for the profession - for all qualifying methods.
    - *Example:* A home-based sole practitioner consultant can be expected to have a lower expense ratio, while a retail business that has a full staff of employees, fleet of vehicles, and relies heavily on inventory to generate income will have a higher expense ratio. To the extent that LENDZ FINANCIAL has evidence or other reason to believe that the reasonable expense ratio for a business is higher than the Fixed Expense Ratio methodology, LENDZ FINANCIAL may determine, in its sole discretion, may require the borrower to follow Option 2.
- LENDZ FINANCIAL reserves the right to request additional information, including 1040, 1120, and 1065 tax documentation.
  - The expense ratio should be consistent with the revenue and expenses in the business bank statements.
    - Businesses that have significant pass-through revenues, such as retail businesses that perform check cashing services or sell lottery tickets, or investment firms that receive outside investment capital, may be ineligible

**OPTION 1 – Fixed Expense Ratio**

All business can qualify using a 50% expense ratio.



- a) 50% Expense Factor will be utilized to calculate income
  - Any loan with LTV >85.01 will be required to use 50% expense factor
  - Verify borrower is minimum 25% owner of business
  - Decreasing or negative ending balances must be addressed
  
- b) 20% Expense Factor eligible only if all of the following applies to the business
  - Max LTV 85%
  - Borrower is sole owner and operator of the business (no partners, employees, etc.)
  - Service business (no costs of goods, no heavy equipment, machinery, etc.)
  - Does not require office space that would incur rent

### **OPTION 2 – Third Party Expense Ratio | 20% floor**

**A third party expense factor must be deemed reasonable for the business type. If deemed unreasonable, a minimum of 50% expense factor will be used.**

- Max LTV 80% Purchase/Rate & Term; 75% Cash-out
- 3rd party must have filed most recent business tax returns
- The Tax Professional will provide an expense statement specifying business expenses as a percentage of the gross revenue –20% floor
- The Tax Professional attesting to the Expense Ratio must also attest that they have filed the borrower's most recent years business tax returns
- The Tax Professional must certify that the Expense Ratio represents an accurate summary of the applicable cash expenses of the business.
- Tax Professional must verify the borrower's ownership percentage
- Tax Professional license must be verified
- To determine net income, multiply eligible business deposits by the following: 100% minus the Expense Ratio as described above.
- CPA letter must be on letterhead and originate from CPA office, DocuSign not allowed.

**\*\*Note: Self-employed borrowers who file their own tax returns are not eligible\*\***

### **10.5 12/24 MONTH CPA/ENROLLED AGENT (EA) PREPARED PROFIT & LOSS**

- Max LTV 80% Purchase/R&T; 75% Cash-Out Refinance
- Self-Employed borrowers only
- Self-Employed defined as borrower owning >=50% ownership of respective business

- Ownership percentage must be documented via CPA/EA letter, Operating Agreement or equivalent
- Most recent 12 or 24 month Profit & Loss statement (P&L). P&L end date must be less than 90 days old at closing
- All Profit & Loss statements must be completed by an independent CPA/EA/PTIN
- The CPA/EA prepared P&L must be signed by both the borrower and CPA/EA/PTIN
- The CPA/EA preparing the P&L must have filed the borrower's most recent business tax returns
- CPA/EA must provide attestation that they prepared borrower's tax returns and that that are not related to the borrower, or associated with borrower or borrower's business. • The CPA/EA/PTIN must attest that they have performed either the following functions:
  - (i) Audited the business financial statements, or
  - (ii) Reviewed working papers provided by the borrower. The CPA/EA must also attest that, based on this review, they certify that the P&L represents an accurate summary of the business cash flow and applicable cash expenses.
- CPA/EA license must be verified
- Self-employed borrowers who file their own tax returns are not eligible
- Minimum of 2 years self-employment in the current profession
  - Validation of a minimum of 2 years existence of the business from one of the following: Business License, Letter from Tax Preparer, Secretary of State Filing or equivalent
- Borrower narrative on nature of business required
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business
- Employment verification documentation must be consistent with information on the loan application and borrower's credit report

## 10.6 SUPPLEMENTAL INCOME SOURCE REQUIREMENTS FOR BANK STATEMENTS AND 12 MONTH CPA/EA PREPARED PROFIT & LOSS

- **Joint Accounts** - A joint personal account with a non-borrowing spouse or domestic partner can be used for qualifying as follows:

- If not contributing income/deposits, it must be validated by a borrower affidavit
- If contributing income/deposits, source must be clearly identified (direct deposit, SSI, trust income) and amounts must be subtracted from the analysis
- Relationship letter must be present in file
- **Component Sources of Income** - A borrower who has a self-employed business and also receives income from other sources is eligible for the bank statement program. Income sources include but are not limited to rental properties, trust & investment, alimony, etc. These income sources must be separately documented on the 1003 and must be separately supported by bank statement deposits.
  - Rental Income:
    - A current lease is required for all REO income properties
    - Evidence that lease is market rent is required
    - Must provide proof of ownership
    - If lease is not available, market rent must be obtained
    - Lease or market rent must be reduced by a vacancy/expense factor of 15%
  - Trust Income:
    - Income from trusts may be used if constant payments will continue for at least the first 3 or 5 years of the mortgage term as evidenced by trust income documentation. 5 years required if income source is > 50% of loans total qualifying income
    - See section on Ancillary Income for limits on adjusting current distributions and continuance.
    - Trust Agreement required confirming amount, distribution frequency, and duration of payments
  - Alimony Income/Child Support:
    - Final Divorce decree or legal separation agreement required
    - Must provide payment evidence of 6 months via cancelled checks, deposit slips, or bank records
  - Note Receivable Income:

- Copy of the note confirming amount and length of payment
- Must provide payment evidence of 12 months via cancelled checks, deposit slips, or bank records
- Royalty Payment Income:
  - Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income –must document a 3 year continuance
  - Must provide payment evidence of 12 months via cancelled checks or bank records/deposits
- Retirement Income:
  - The following types of income documentation are required:
    - Copy of award letter or letters from the organizations providing the income and,
    - Most recent 2 months bank statements showing deposit of funds
- **Self Employed/Wage Earner Combination** - Joint borrowers with 1 wage earner and 1 self-employed business owner can verify income separately, with the self-employed borrower utilizing bank statements and the wage earner providing pay stubs/W-2s. The wage earner 4506C should include W-2 transcripts only.

## 10.7 EMPLOYMENT & INCOME

### 10.7.1 ALIMONY AND CHILD SUPPORT

- Final Divorce decree or legal separation agreement required
- Must provide payment evidence of 6 months via cancelled checks, deposit slips, or bank records
- Alimony may be deducted from income for qualifying

### 10.7.2 ASSET UTILIZATION (PLATINUM AND GOLD)

- The utilization of financial assets will be considered as borrower income to qualify for their monthly payments. The unrestricted liquid assets can be comprised of stocks/bonds/mutual funds, vested amount of retirement accounts and bank accounts.
- This can be combined with other sources of income (i.e. rent, pension, social security etc.) self-employment and W2 income.

Program Requirements:

- Primary and 2nd home - Maximum LTV/CLTV of 80%
- Investment Property – Max LTV/CLTV of 65%
- Cash Out – Max 60% LTV/CLTV
  - Cash out proceeds may not be used as qualified assets
  - Asset utilization will be qualified under the full doc program matrix
  - Reserves not required
  - Requirement:
    - Borrowers must have a minimum of the lesser of
      - (i) \$1mm in Qualified Assets OR
      - (ii) 1.25 times the loan balance Qualified Assets, but never less than \$450K liquid assets.

Assets:

- Borrowers must have a minimum of \$450K in post-close liquid net assets
- Assets used for qualifying must be seasoned 120 days
  - Seasoning not required if assets are from the sale of business, inheritance or legal settlement etc. Documentation verifying ownership of assets is required. Cash out from delayed financing is eligible with proper documentation.
- Net Assets:
  - If the assets or a portion of the assets are being used for down payment or costs to close, those assets should be excluded from the balance before analyzing a portfolio for income qualification.
- Qualifying Assets:
  - Net assets multiplied by the following percentages:
    - 100% Checking/savings/money accounts, cash value/surrender value of Life Insurance
    - 80% of the remaining value of exchange traded stocks/bonds/Mutual Funds/Annuities
    - 70% for all vested retirement assets
- Qualifying Income:
  - Qualified assets with utilization draw schedule of 5 years (Qualified Assets divided by 60).

**ELIGIBLE ASSETS**

<b>Asset Type</b>	<b>Qualifying Amount</b>
Checking, Savings, Money Market Accounts, Cash value/surrender value of Life Insurance, Equity Proceeds from concurrent sale	100%
Annuities*, Mutual Funds, Publicly Traded Stocks and Bonds	80%
Retirement Accounts (401(k) IRA, SEP, KEOGH)	70%
Note: Sale of business, inheritance or legal settlement, delayed financing cash out with proper documentation, and other asset types may be used on a case-by-case basis	

\* Annuities are permitted with attestation from borrowers’ asset manager or account representative confirming terms, penalties etc.

**INELIGIBLE ASSETS**

- 529 accounts
- Accounts pledged as collateral on another loan
- Assets titled in an irrevocable trust
- Below investment grade corporate and municipal bonds
- Business Funds
- Cash out refinance proceeds
- Custodial accounts
- Deferred compensation
- Crypto currency unless seasoned and liquidated to US dollars
- Escrow accounts
- Foreign funds
- Gift Funds
- Health Savings Accounts
- Non-Financial assets (collectibles, stamps, coins, artwork, etc.) unless liquidated
- Non-liquid assets (automobiles, artwork, business net worth, etc.)
- Non-regulated financial companies
- Non-vested restricted stock units
- Privately held stock
- Stock options
- SBA loans and paycheck protection funds

**10.7.4 BORDER INCOME**

- Allowable on full doc loans if income is declared on tax returns.

#### 10.7.5 BONUS AND COMMISSION

- A 2-year average is required unless borrower recently moved to a commission basis. Consideration of > 1 year and < 2 years may be permitted based on FNMA guidelines.

#### 10.7.6 CAPITAL GAINS

- 2 years of tax returns required and an analysis of post-closing assets' ability to produce capital gains

#### 10.7.7 EMPLOYMENT HISTORY

- Employment is considered stable if the borrower has a 2-year work history in the same job or field. Written analysis may be provided justifying less than 2 years.
- A minimum of 6 months of employment is required unless recently graduated from school or completion of formal training.

#### 10.7.8 EMPLOYMENT GAPS/EXTENDED ABSENCE

- Borrower must explain any employment gaps exceeding 30 days in the last 12 months
- Extended Absence – Must be employed for at least 6 months when returning from an extended absence (defined as 6 months) and must document (VOEs or W2s) a 2-year work history prior to an absence.

#### 10.7.9 EMPLOYEE BUSINESS EXPENSES

- Employee business expenses reported on tax returns are actual cash expenses and must be deducted from income.

#### 10.7.10 FAMILY-OWNED BUSINESS

- Provide copies of the borrower's signed federal income tax returns filed with the IRS if the borrower is employed by family members. Or provide evidence borrower has no ownership interest (e.g. corporate returns with ownership percentages.)

#### 10.7.11 FOREIGN INCOME

- Foreign income is income earned by a borrower employed by a foreign government/company and not paid in US dollars. Acceptable utilization if the following criteria satisfied:
  - 2 years US Tax returns reflect the foreign income
  - Income is translated to US dollars
  - Income documentation, stability and continuance requirements are met
  - Income from countries under OFAC sanctions not permissible

#### 10.7.12 FOSTER / IHSS / PARSONAGE

- Foster/IHSS/Parsonage eligible with 2 years history and 3-year continuance

#### 10.7.13 GROSSING UP NONTAXABLE INCOME

- Non-taxable income may be grossed up 125%.

#### 10.7.14 IRA/DISCRETIONARY RETIREMENT ACCOUNT DISTRIBUTIONS

- IRA distributions cannot be set up post application date unless the borrower is required to start withdrawing based on age (for IRA's). In such cases, 125% of the required minimum amount can be used to qualify.
- Distributions must have been received at least one month prior to application to be considered as eligible income. Distributions that have been received for 2 months or more can be adjusted with a letter from the plan administrator validating the increase.
  - Allowable increases of distribution amount are limited to 125% of previously received distributions. Continuance for 3 years at the proposed monthly amount is required
- Self Employed borrowers who contribute to their own self-funded pension as reported on the most recent filed tax returns are eligible to be added back as income.

#### 10.7.15 NOTE RECEIVABLE INCOME

- Copy of the note confirming amount and length of payment
- Must provide payment evidence of 12 months via cancelled checks, deposit slips, or bank records
  - Notes with less than 12 months seasoning may be considered by underwriters, but never less than 9 months (e.g. sold a business and took back a note)



### 10.7.16 EMPLOYMENT OFFERS AND CONTRACTS

- A borrower scheduled to begin employment under the terms of an employment offer of contract may be eligible.
  - Document fully executed offer and acceptance
  - Provide a paystub that includes sufficient information to support the income used to qualify the borrower based on the offer or contract at time of funding OR
  - Provide receipt of 1st paystub within 30 days of closing.
    - Income from the paystub provided and VVOE must align with the contract/offer used to qualify.
    - Offer must be non-contingent.
      - If conditions of employment exist, confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation.
    - Document, in addition to the amount of reserves required for the loan transaction, one of the following:
      - 6 months PITI(A) OR
      - Reserves sufficient to cover the monthly liabilities included in the DTI, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.
  - Variable income cannot be used to qualify

### 10.7.17 RESTRICTED STOCK UNITS

Restricted Stock and Restricted Stock Units (RSUs) are nontransferable and subject to forfeiture unless certain employment and performance conditions are met. Stocks must be publicly traded.

**Restricted Stock** is a regular and reoccurring form of compensation granted to certain employees and executives.

**Restricted Stock Units (RSUs)** represent an unsecured promise by an employer to grant a set number of shares of stock to the employee. They are nontransferable and subject to forfeiture.

Restricted stock and RSU's may only be considered once they become fully vested. A vesting schedule must be provided to confirm future scheduled amounts and vesting dates. If the vesting schedule supports a regular and reoccurring release of stock that supports the amount and continuance used to qualify, future allocations do not need to be fully vested at the time of the application.

### **Documentation Requirements**

- Current paystub, 2 years W2s and tax returns evidencing one-year history of receipt of restricted stocks. If not clearly identifiable on the W2s, year-end paystubs may also be required to identify receipt.
- If the borrower has less than two years with current employer, must document the borrower's prior employment compensation included restricted stocks and the borrower has received at least one award with the current employer that is vested. The previous employment must have been a similar position and industry and issuance of restricted stock must be common for the industry.
- Vesting schedule to provide schedule of distribution of units and show no indications the borrower will cease to receive future restricted stocks at the same historical level.

### **Calculation of Income**

- A one-year average of prior income received in RSUs or stop option will be used
- Use of the lower value of the current stock price or a 52-week average of the stock price

### **10.7.18 RETIREMENT OR PENSION INCOME**

- Borrowers of retirement age do not require proof of continuance if income received from corporate, government or military retirement or pension.
- One of the following types of income documentation is required:
  - Award letter(s) from the organizations providing the income
  - Retirement award letter or benefit statement
  - Most recent personal income tax return with all schedules
  - Most recent W2 or 1099
  - Proof of receipt of one month of the income
- If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at

least three years after the date of the mortgage application.

- Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.
- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the lender obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.

### 10.7.19 RENTAL INCOME

See Departing Residence for additional details

- Negative rental income may be deducted from income rather than considered a liability (except departing residences)
- W2 borrower may provide leases and proof of rent in lieu of tax returns.

#### 10.7.19.1 CALCULATION

- **Purchase transactions** will be calculated at 85% of market rent less PITIA.
- **Refinance:** Tax returns programs: rental is calculated from schedule E. When two years returns are provided, the most recent years rental income is used.
- **Refinance:** No tax return programs
  - Income derived from rental real estate is qualified by documenting the following:
    - Current lease on the REO (must be at or below market rents as evidence by internet rental searches)
    - Proof of receipt of the most current month's rent
    - Calculate income or loss based on 85% of the lease less the documented PITIA

#### 10.7.19.2 SHORT TERM/VARIABLE RENTAL INCOME (OREO)

- Examples: Airbnb – VRBO- HomeAway
- Qualifying Income is one of the following:
  - 12 months evidence of receipt via Service Provider payment receipt history

deposits. Income is calculated based on average deposits over a 12-month history, including zero deposit months, or

- If 12 months statements are not available, market rents for permanent tenant can be used.
- Market rents (rent range rentometer, etc.) adjusted 25% vacancy.
- Requires property ownership report and proof of property listing on Website
- Must be permitted in accordance with local ordinances
- Subject property purchase or refinance ineligible – must be OREO

#### 10.7.19.3 RENT ROLLS

- Allowed for verification of rent received if provided by a third-party, disinterested property management company

#### 10.7.19.4 SECOND JOBS

- Second job income considered stable if received for 2 years and likely to continue. Less than 2 years acceptable but not less than 1 year.

#### 10.7.19.5 TEMPORARY LEAVE INCOME

- The lesser of the borrower's temporary leave income (if any) or the regular employment income is used to qualify.

Follow FNMA guidance.

#### 10.7.19.6 TRUST INCOME

- Income from trusts may be used if constant payments will continue for at least the first 3 years of the mortgage term as evidenced by trust income documentation. Trust Agreement and Trust Asset Statement required
- Trust Agreement required confirming amount, distribution frequency, and duration of payments
- At least one distribution must have been made prior to close

### 10.8 VERBAL VERIFICATION OF EMPLOYMENT

- A VVOE is required for all wage earner borrowers and must be completed within 5 business days of the closing date.

## 10.9 INELIGIBLE INCOME

- Rental income from a second home
- Education benefits
- Trailing Spouse Income
- Medical marijuana dispensaries
- Any income related to recreational marijuana use regardless of local and state law
- Gambling income including internet gambling
- SBA loans or paycheck protection funds

## 11 ASSETS

### 11.1 DOCUMENTATION

- Asset Statements
  - Asset Utilization: 4 months statements
  - All other programs: 1 month statement
- Statements not required for Cash-Out transactions which satisfy reserves
- All pages of the most recent required months statements, the most recent quarterly statement, or FNMA approved third party direct pull services.
- Exchange traded Stocks/Bonds/Mutual Funds – 100% may be used for reserves
- Vested Retirement Accounts – 100% may be considered for reserves
- If needed to close, verification that funds have been liquidated (if applicable) is required
- If borrower has >20% of funds needed to close remaining in the account, documentation of liquidation is not required.
- Secured borrower funds are allowed for down payment and closing costs (ex: HELOC and OREO)
- An LOE may be required on purchase transactions for large deposited (generally exceeding 50% of the total monthly qualifying income). If LOE sufficient, no sourcing required.
- Earnest money deposit – Follow FNMA requirements. If needed to meet minimum borrowers' contribution, provide documentation.
- A borrower, who is also the realtor on the subject property, may use commission earned (commission must be market rate) towards the funds to close requirement.

- Builder profits are not allowed
- Rent to own Credits not allowed
- Repayment of loan without bank records to show the initial loan disbursement are not allowed.
- Non-borrowing titleholder or member of LLC/entity who is contributing assets. One month asset statement required. No gift letter required.
- SBA loans or paycheck protection funds may not be used as assets, income, down payment, closing costs, reserves.

**11.2 BUSINESS FUNDS**

- Business accounts may only be used to meet down payment and/or reserve requirements if:
  - 100% ownership of the business across borrowers; underwriter review of the business cash flow and ending balances must be reviewed to determine eligibility, OR
  - Shared ownership requires an access letter from partners allowing the use of the business funds by the borrower

**11.3 GIFT FUNDS**

- Purchase transaction only
- Primary Residence only
- Minimum Borrower Contribution

>80% LTV/CLTV	Borrower must have 10% of their own funds documented but not required to use
≤80% LTV/CLTV	Borrower must have 5% of their own funds documented but not required to use

- If above minimum borrower contribution % is not used towards the down payment, those funds can be used towards reserves
- Gifts from family members are allowed
- Non-borrowing titleholder or member of LLC/entity who is contributing funds is not considered a gift, no gift letter required. One month asset statement required.
- Non-borrowing spouse residing in property who is contributing funds is not

considered a gift, no gift letter required. One month asset statement required.

- Gift of Equity from family member allowed up to 75% LTV/CLTV (Primary Only). Subject property mortgage rating from seller is required

### 11.4 RESERVE REQUIREMENTS

	<b>≤\$2,000,000</b>	<b>&gt;\$2,000,000</b>
<b>Platinum</b>	6 months	9 months

	<b>≤\$1,000,000</b>	<b>≤\$2,000,000</b>	<b>&gt;\$2,000,000</b>	<b>R/T Refi, Max 60% LTV/CLTV, Min 0x30x12</b>
<b>Gold</b>	3 months	6 months	9 months	No reserves required

- Reserves are calculated off actual P&I payment plus Taxes, Insurance, and HOA or ITIA if Interest Only
- Cash Out may be used to meet reserve requirements
- Gift Funds used as reserves – see Gift Fund guides (section 11.3) for details
- Assets being used for dividend and interest income may not be used to meet reserve requirements
- Restricted stock is ineligible for to be used for reserves
- Flex Underwriting – Per AUS

### 11.5 LIFE INSURANCE CASH VALUE

- Life insurance policy current cash value or loan against the cash value may be used for down payment, closing costs or reserves.

### 11.6 FOREIGN ASSETS

- Foreign assets are acceptable and must be 60 days seasoned with 2 most recent bank statements.
- Any foreign assets used for verification and/or qualification should be transferred to a US Bank account; if funds are being used for down payment and/or reserves.

**11.7 NON-BORROWING SPOUSAL ACCOUNTS/ ACCESS LETTERS**

- Access Letters required for Bank Statement only
- Non-borrowing joint account holder affidavit is required to ensure no deposits by that non-borrower are included as income.

**11.8 BITCOIN (CRYPTO CURRENCIES)**

- Allowed for down payment, closing costs and reserves with evidence of ownership and liquidation to US dollars.

**11.9 SALE OF PERSONAL ASSETS**

- Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the assets is not a party to the property sale transaction or the mortgage financing transaction. Documentation required supporting borrower ownership of the asset, independent valuation of the asset, ownership transfer of the asset and borrower's receipt of sale proceeds.

**11.10 EMPLOYER ASSISTANCE**

- Employer assistance in the form of a grant, direct fully repayable second mortgage, forgivable second mortgage or deferred payment second mortgage or unsecured loan, and shared appreciation down payment assistance are permitted. Funds must come directly from the employer, may be used for down payment/closing costs subject to minimum borrower contributions, may be used for reserves except for unsecured loans and are only eligible for primary residence.

**11.11 INTERESTED PARTY CONTRIBUTIONS – IPC / SELLER CONTRIBUTIONS**

- Full Doc, Express Doc, Bank Statement, IPC permitted up to 3% for LTV >80, 6% for LTV ≤ 80
- All IPC calculations are based on purchase price.

**12 LIABILITIES****12.1 30-DAY ACCOUNTS**

- 30-day accounts (AmEx) should be qualified using the full monthly payment or 3% for monthly accounts unless borrower documents balance can be covered by excess reserves.



## 12.2 ALIMONY SUBTRACTED FROM INCOME VS. INCLUDED AS DEBT

- The monthly alimony obligation can be deducted from the consumer's gross income when calculating quantifying ratios.

## 12.3 AUTHORIZED USER ACCOUNTS

- Authorized user accounts may be excluded from DTI.

## 12.4 BUSINESS DEBT

- Excludable if can be tied to business related activities (i.e. – vehicle, residential mortgage debt) and 6 months (0x30) proof that business pays. Expense must be evident on business financials.

## 12.5 CONTINGENT LIABILITIES

- Contingent liabilities can be excluded from DTI if the borrower provides evidence that their business or another individual/entity has made payments for 6 months (0x30).
- Any liability related to a separation or divorce can be omitted if ordered by family court. Documentation from the court is required.

## 12.6 DEPARTING RESIDENCE

- Departing residence positive rental income cannot be used as qualifying income. Departing residence PITIA can be offset by 75% of projected net rental income.
- Departing residence rental that produces a loss must be included in DTI.
- Document rents received via current lease and initial deposit, or if not available, market rent survey may be used (free online source permitted)
- Generally, borrowers may not own an additional single-family residence of equal or greater value than subject property.
- Significant equity in a departing residence should be considered in overall credit analysis and cannot be pared with an exception.
- Departing residence obligation can be excluded if the property is under contract and meet the following -
  - A copy of an executed sales contract for the property pending sale and

confirmation all contingencies have been cleared/satisfied. The departure transaction must be closing within 30 days of the subject transaction. The pending sale transaction must be arm's length.

- No appraisal required for departure residence. The borrower must be netting a positive number from the sale of the property or assets must be accounted for to cover any funds the borrower may have to bring to closing on the sale of the departure residence.
- An additional 6 months PITIA reserves for the departure residence is required.

### 12.7 LEASES

- Vehicle lease payments must be included in DTI, regardless of the number payments remaining
- Turning in a vehicle early to exclude the payment from the DTI is not allowed.

### 12.8 PROPERTY TAX ESTIMATES

- New Construction: Property taxes should be calculated using 1.5% of sales price for qualification (1.25% in California) or documented tax rate from municipality.
- Purchase and Refinance: Use current tax amount per title or tax card.
  - CA Purchases use 1.25% of purchase price or documented tax rate from municipality. Do not use property tax amount of current owner.

### 12.9 PAYOFF / PAY DOWN OF DEBT TO QUALIFY

- Installment and revolving debt paid at closing may be excluded from the debt-to-income ratio with:
  - A credit supplement OR
  - Verification from the creditor liability is paid in full or evidence of payoff on Closing Disclosure
- Cash out proceeds may be used to pay off or pay down debt to qualify at closing.
- Installment loans may be paid down to less than 10 payments

### 12.10 STUDENT LOAN

- Student loans that are deferred beyond 12 months may be excluded from DTI calculation. Student loans that are deferred < 12 months or in repayment status must be included in the DTI calculation.
- Loans in repayment - If a payment amount is not identified, .5% of the current loan balance may be utilized.

- Affordability based payments may be used

### 13 PROPERTY 13.1 APPRAISAL

<b>Platinum</b>	Loan amount ≥ \$2,000,000 and >65% LTV/CLTV - 2 full appraisals
<b>Gold</b>	1 Full appraisal required for all transactions

- An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable
- Transferred appraisals are acceptable, unless ordered by borrower or affiliate of the property seller.
- Form 1007 Schedule of Rents is required for all Non-Owner-Occupied loans on Single Family residences
- For 2-4-unit properties, a FNMA 1025 Small Residential Income Property Appraisal Report is required
- Interior inspections required, including photos, according to USPAP guides
- Legal non-conforming zoned properties must indicate that the subject property can be rebuilt if it is severely damaged or destroyed
- Negative property influences must be disclosed and adjusted accordingly by appraiser - Including but not limited to: Water Tower, Cell Tower, Gas Station, Railroad Tracks, Landfill/Dump, Auto Repair, Auto Sales, Highway Overpass, On- & Off-Ramp, Billboards/Advertisements, Airports, Hospitals, Police & Fire Stations
- Properties with unpermitted additions: appraiser to determine if addition is completed in a workman like manner
- HPML flips require 2nd full appraisal

### 13.2 HYBRID APPRAISALS

A hybrid appraisal is a type of desktop appraisal in which the inspection portion and report creation are handled by two separate parties. The work of physically inspecting the property is handled by a third party other than the appraiser, this can often be another licensed appraiser, a home inspector, or some other real estate professional. They gather

all the property information as well as photos and transfer the data to a state licensed or certified appraiser who then creates a desktop valuation based on additional research of the property and the market in conjunction with the information supplied from the inspection.

Approved Vendors	LENDZ FINANCIAL Approved Vendors			
Hybrid Appraisal Type	Purchase, Rate/Term, Cash Out	Interior Hybrid Appraisal signed by a state licensed/certified appraiser.		
Max Loan Amount	\$1,500,000			
Min FICO	680			
Property Types	Eligible	Ineligible		
	<ul style="list-style-type: none"> <li>• SFR 1-4 Unit</li> <li>• Condo</li> <li>• PUD</li> </ul>	<ul style="list-style-type: none"> <li>• Rural</li> <li>• Leaseholds or Properties on leased land</li> <li>• Irregular or non-residential zoning</li> <li>• Atypical or extremely custom homes</li> <li>• Properties on acreage - 5+ Acres</li> <li>• Properties in need of major repairs</li> <li>• Condotels</li> <li>• New construction PUDs / Condos</li> <li>• Properties subject to inspection</li> <li>• HPML</li> </ul>		
Max LTV/CLTV		<b>Purchase</b>	<b>Rate/Term</b>	<b>Cash Out</b>
	<b>Owner Occupied</b>	75%	70%	60%
	<b>2nd Home</b>	70%	70%	60%
	<b>Investment</b>	70%	65%	60%
Compliance	Both interior and exterior hybrid products offered are FIRREA compliant as the actual valuation product delivered is signed by a state licensed or certified appraiser.			

### 13.3 REVIEW APPRAISALS

- All loans require a desk review or other third-party valuation product.
- LENDZ FINANCIAL will accept a desk review within -10% variance of original appraised value from approved TPR valuation vendors.
- Contact LENDZ FINANCIAL for a list of approved desk review vendors. Desk review variance may not exceed -5% for loans at 90% LTV.
- Fannie Mae Collateral Underwriter (CU) Reports

- o No 3rd party review required (desk review or second appraisal) if CU Score is 2.5 or below
- When two appraisals are required, they do not require a separate review product. Lowest value of the two appraisals is used as subject property value.

**13.4 PROPERTY TYPES**

<b>Eligible</b>	<ul style="list-style-type: none"> <li>▪ SFR or Townhome (Max 6 Bdrms)</li> <li>▪ 2-4 Unit</li> <li>▪ PUD – Attached or Detached (Max 6 Bdrms)</li> <li>▪ Rural Properties (Section 13.4.1)</li> <li>▪ Properties with Business and Residential Use (Section 13.4.2)</li> <li>▪ Declining markets (as defined per appraisal)– 5% LTV/CLTV reduction from max borrower qualifies for; Floor: 75% Purchase; 70% Refinance</li> <li>▪ Modular/Prefabricated/Panelizes or sectional housing</li> <li>▪ ▪ Mandatory Country Club:No more than 10% of Purchase Price</li> </ul>	<ul style="list-style-type: none"> <li>▪ Warrantable Condo</li> <li>▪ Non-Warrantable Condo (Platinum and Gold)</li> <li>▪ Live/Work Condo (Section 13.4.4)</li> <li>▪ 10 Acre Maximum</li> <li>▪ Minimum Square Footage – 500 sq ft per unit – No kitchenettes</li> <li>▪ Co-Op</li> </ul>
<b>Ineligible</b>	<ul style="list-style-type: none"> <li>▪ Assisted Living/Continuing Care Facilities</li> <li>▪ Barndominiums</li> <li>▪ Bed &amp; Breakfast</li> <li>▪ Boarding Houses/Individual Room Leases</li> <li>▪ Builder Model Leaseback</li> <li>▪ C5 or C6 property condition grades</li> <li>▪ Commercial Zoned (Unless Condo)</li> <li>▪ Community Land Trusts</li> <li>▪ Condotels</li> <li>▪ Fractional Ownership/Time Shares</li> <li>▪ Geodesic Domes</li> <li>▪ Native American Leased Land</li> <li>▪ Leased land if lease term does not exceed term of loan by 5 years</li> </ul>	<ul style="list-style-type: none"> <li>▪ Log Homes or Log Home Characteristics</li> <li>▪ Manufactured Homes</li> <li>▪ Properties under construction</li> <li>▪ Shouses</li> <li>▪ *Mandatory Rental Pools</li> <li>▪ Unique Properties</li> <li>▪ Working Farms</li> <li>▪ Zoning violations</li> <li>▪ Industrial zoning</li> </ul>

\*A rental pool in which the HOA also requires a certain # days the property needs to be made available for the HOAs rental team to offer out is ineligible.

### 13.4.1 RURAL PROPERTIES

- Primary Residence – Max 75%
- Second Home – Max 70%
- Investment - Ineligible

A property is generally considered rural when any of these characteristics are present:

- Zoned Rural, Rural Residential, RA, Agricultural, or no zoning
- Appraisal is marked Rural
- Appraisal commentary references rural and rural characteristics
- Outbuildings including barns, stables, workshops, crop storage etc.
- No paved service road
- Neighborhood is less than 25% built up
- Subject is in a community with a population of less than 25,000
- Distance to schools, employment, other services is more than 60 miles

Acceptable residential with rural designation with the following characteristics:

- Must be primarily for residential use
- Property must not be agricultural or provide a source of income to the borrower
- Agricultural properties must not be commercial or income producing
- Lot size and acreage must be typical for the area and similar to the surrounding properties
- Present use as per the appraisal must be the “highest and best use” for the property
- Two of three comps must be less than 5 miles from subject
- Outbuildings may be considered with less than 5% contributory value and at least two comparables with similar structures.
- Neighborhood is more than 35% built up
- Subject is in a community with a population of at least 10,000
- Distance to a major MSA with population of at least 100,000 is 50 miles
  - Distance to employment and other services is a maximum of 25 miles

### 13.4.2 PROPERTIES WITH BUSINESS AND RESIDENTIAL USE

LENDZ FINANCIAL will allow properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices.

The following special eligibility criteria must be met:

- Eligible for PLATINUM, PLUS and Flex Underwriting
- 10% LTV reduction for properties designated as "mixed use" on appraisal – 65% LTV/CLTV floor
- The property must be a 1-4 unit or PUD that the borrower occupies as a principal residence.
- Properties with ADU units are eligible when the accessory unit is used for the business. ADU must be legally zoned.
- The property must be primarily residential in nature.
- Condominium units are ineligible
- Business must require licensure to operate - Overnight use is ineligible
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

### 13.4.3 COMMERCIAL INFLUENCE

Ineligible Properties near Commercial Influence:

- Environmental Hazards with potential impact to health and safety
- Industrial factory
- Located in an area not conforming to the neighborhood (i.e. few residential properties in density)
- Power plants

Appraisal Requirements for Homes near Commercial Influence

- Minimum 1 comparable with similar commercial influence
- Commercial influence adjustments if all comps are not located within the commercial influence

### 13.4.4 WARRANTABLE CONDO

- Condo project review must be in accordance with the FNMA Seller Guide
- LENDZ FINANCIAL Seller to perform project review and designate as warrantable

- Condo projects must be 100% complete and HOA in control.

<b>No Project Review</b>	<ul style="list-style-type: none"> <li>• Detached condos</li> <li>• 2- to 4-unit projects</li> </ul>
<b>Limited Review for Established Projects <u>except</u> Florida</b>	<ul style="list-style-type: none"> <li>• Primary: ≤ <b>85%</b> LTV/CLTV</li> <li>• Second Home: ≤ <b>75%</b> LTV/CLTV</li> <li>• Non-Owner: ≤ <b>75%</b> LTV/CLTV</li> </ul>
<b>Limited Review for Established Projects in Florida</b>	<ul style="list-style-type: none"> <li>• Primary: ≤ <b>75%</b> LTV/CLTV</li> <li>• Second Home: ≤ <b>70%</b> LTV/CLTV</li> <li>• Non-Owner: ≤ <b>70%</b> LTV/CLTV</li> </ul>
<b>Full Review</b>	<ul style="list-style-type: none"> <li>• All new projects</li> <li>• Project ineligible for limited review</li> </ul>

### 13.4.5 LIVE/WORK CONDO

Eligible for PLATINUM, PLUS and Flex Underwriting Follow FNMA guidelines

### 13.4.6 NON-WARRANTABLE CONDOS

<b>Non-Warrantable Condos – Limited to two (2)</b>	
Max LTV	80% Max LTV in All Programs
Presale	At least 30% of the units must be sold or under bona fide contract
Investor Concentration	Up to 70% of units can be tenant occupied
Commercial Space	Up to 50%
Recreational Leases	Eligible
Single Entity Ownership	A single entity can own up to 30% of units
Insurance Coverage	Exceptions to Fannie Mae minimum coverage requirements
Reserves	<10% replacement, maintenance, and/or deductible (min 5% required)
Mandatory Memberships	Cannot exceed 10% of purchase price
Material Litigation - Structural/Functional litigation against developer	Ineligible
Delinquent HOA- in excess of Fannie Mae 15% limit	Up to 25%
Newly Converted - Non-full gut	Ineligible



rehab	
Flood Insurance	Projects in a flood zone with no master flood coverage are ineligible. Borrower individual policies are not acceptable

**13.5 DISASTER POLICY**

Post Disaster Inspections are required if a property is in a declared area and appraisal predates the disaster. Listings can be found by visiting: <https://www.fema.gov/disasters>

**13.6 ACCESSORY DWELLING UNITS – ADU**

- Appraiser to confirm ADU is typical to the area with supporting comparables.
- Rental income may be used for purchases and refinances with supporting appraisal comparable which contains accessory units, Appraisal market rents survey, and lease with 1 month evidence receipt of income (for refinance)
  - o Purchase - Borrower to provide attestation regarding their intentions to rent the ADU
- Unit should not jeopardize potential future hazard insurance claim(s)
- Conforms to all zoning laws/regulations including permit requirements
- Unpermitted ADUs must be completed in a workman like manner and conform to the subject property. No rental income may be used to qualify.
- No more than one ADU per property.
- Not permitted on 4-unit properties

**13.7 SOLAR**

- Properties with solar panels are eligible for purchase, however, should not be included in property valuation.
- Solar panel agreements are permitted in accordance with FNMA guidelines

**13.8 MULTIPLE DWELLINGS ON 1 LOT/ MULTIPLE APNs**

- o Properties with more than one 1-4 unit dwellings are not eligible.
- o Multiple APNs are acceptable if the subject property is on one parcel or across the lot

line. Additional adjoining parcel(s) may not have additional dwelling unit(s) and is limited to non-residential improvements.

### 13.9 AGRICULTURAL ZONING

- May be eligible when all the following exist:
  - Highest and best use of the subject property is residential
  - Subject property is used as a residence and is typical for the neighborhood or market area
  - The appraiser adequately demonstrates that the subject neighborhood is residential in nature
  - Residential use is permissible under the zoning and land use regulations
  - Property adheres to the maximum acreage standards
- The appraiser must also provide detail of any outbuildings on the property:
  - Size of the outbuildings
  - Are the outbuildings being used for a special purpose
  - Do the comparable sales have similar outbuildings
  - Is the property residential in nature – no agricultural or commercial useNo value should be given to any auxiliary buildings.

## 14 TITLE AND CLOSING

- Short form title policies are allowed
- Preliminary title report must include plat map and survey (as required), proposed insured as Lendz Financial and final loan amount.

### 14.1 DEED RESTRICTIONS

- Deed restrictions that affect transferability of a property are not allowed. Age Restricted communities are allowed.

### 14.2 SOLAR/PACE/HERO LOANS

- Solar leases are allowed if the lease payment is included in the DTI, equipment owner is responsible for any damage because of installation/removal/defect/malfunction, and equipment owner is not listed as loss payee of on the insurance policy. Must conform to FNMA.

- Borrower to provide copy of lease for refinance. Purchases require copy of lease however reflecting in
- borrower's name to show they qualified for the transfer of solar lease.
- Power purchase agreements are eligible. Not necessary to be included in DTI. Must conform to FNMA.
- PACE loans (or any similar loans with payments that are included in property taxes) are not eligible to remain on title; must be paid off through closing.
- Payoff of PACE/HERO will be treated as a rate and term.

### 14.3 POWER OF ATTORNEY

- Limited Power of Attorney (POA) is acceptable for executing closing documents, is specific to the transaction, contains an expiration date, initial 1003 is signed by the borrower executing the POA.
- Not permitted on cash-out.
- A LOE describing reason for using a POA is required.

### 14.4 E-SIGNATURES

- E-signatures are permitted except for the following documents: Note, Mortgage, Deed of Trust, Closing Disclosure, Power of Attorney, Riders/Addendums, and any state regulated disclosures. These documents require a wet signature.

### 14.5 ESCROW HOLDBACKS

- Escrow Holdbacks are not allowed