Series 4 – Alternate Documentation - Non-QM Underwriting Eligibility Guidelines

Effective 5.7.24

Contents

1 Introduction

Lendz Financial Credit Guidelines establish standards and criteria in which a loan will be eligible for funding by Lendz Financial. Sellers should use these Guidelines to understand how Lendz Financial assesses risk and to understand Lendz Financial program specifics and our process flow. If a topic is not addressed within these guidelines, Lendz Financial will align with Fannie Mae (FNMA), Chapter B3-1, Manual Underwriting guidelines.

The Credit Guidelines provide detailed requirements for funding eligibility but Lendz Financial is not obligated to fund a loan even if it satisfies these requirements. Compliance with these guides does not create a commitment by Lendz Financial to fund. Further, Lendz Financial does not require Sellers to make loans simply because they are eligible for sale to Lendz Financial, nor does Lendz Financial prohibit sellers from originating loans that are not eligible. Lendz Financial has sole discretion to fund any loans.

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

Seller Responsibilities:

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

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

Additional Requirements:

- Deviations from the underwriting guidelines based on compensating factors need to be documented in the loan file.
- Negative Amortization Features or Equity Participations loans are not allowed.

- Lendz Financial does not fund loans defined as high-cost mortgages (or equivalent terms) under Federal or state law.
- U.S. Territory loans are not allowed. Properties must be in the United States.
- None of the Mortgaged Properties are secured by manufactured housing or unique property types, including without limitation, timeshares,
- agricultural properties, log homes or geodesic domes. No Mortgage Loans that finance builder inventory.
- With respect to each Mortgage Loan, (1) each Mortgagor is a natural person and (2) at the time of origination, the Mortgagor or Guarantor was legally entitled to reside (or legally own for Foreign Nationals) in the United States.
- Occupancy - the Originator gave due consideration, at the time of origination, to information contained within the Mortgage Loan File, to evaluate whether the occupancy status of the related Mortgaged Property as represented by the Mortgagor was reasonable. The borrower must complete the Business Purpose and Occupancy Affidavit.
- No Mortgage Loan underwritten pursuant to a bank statement income documentation program was underwritten using fewer than twelve consecutive months of bank statements.
- No Mortgage Loan was underwritten utilizing a borrower-prepared profit and loss statement or a borrower-prepared expense letter/statement for purposes of determining income or expenses.
- With respect to any Mortgage Loan underwritten pursuant to a personal bank statement income documentation program either (a) the mortgage file has satisfactory evidence of the existence of a business bank account for the related business or (b) if satisfactory evidence of a business bank account is not provided, the amount of qualifying income for the borrower was determined under the underwriting guidelines applicable to the business bank statement income documentation program.

Ability to Repay (ATR):

The Ability-to-Repay (ATR) Rule is the reasonable and good faith determination that a borrower has the ability to repay the loan. Under the rule, the borrower's income, assets, employment, credit history and monthly expenses must be documented, and certain affordability calculations must be performed during the underwriting process. All closed end mortgages secured by a dwelling, regardless of loan purpose, occupancy or lien position are subject to this section.

Lenders are required to make a reasonable, good-faith determination before a loan is closed that the borrower has a reasonable ability to repay a loan. The lender must consider the following eight (8) underwriting factors and include proper underwriting documentation using reasonably reliable third party records that these factors were properly considered:

- Current or reasonable expected income or assets,

- Current employment status,
- Monthly payment on the loan (calculated on the higher of the introductory rate or fully indexed, rate; the maximum payment scheduled during the first five (5) years),
- Monthly payment on any new or existing secondary financing, including any simultaneous loan that the creditor knows or has reason to know, will be made.
- Monthly payment for mortgage-related obligations, such as property taxes and insurance, HOA dues, and ground rent,
- Current debt obligations, alimony, and child support
- Monthly debt-to-income ratio or residual income, and
- Credit history

2 Alternative Documentation

Alternative Documentation may be used to determine qualifying income both alone and in conjunction with other documentation options.

Personal Bank Statements, Business Bank Statements, P&L Only, 1099 Reduced Doc, Asset Depletion & Asset Utilization are considered Platinum Alt-Doc from a credit and pricing standpoint. When more than one documentation option is utilized for qualifying, i.e., bank statements together with asset depletion, then the documentation option yielding the highest borrower income will be used to determine pricing. Please see the applicable Lendz Financial Matrix for restrictions.

Qualification is based on several factors including (but not limited to):

- FICO Score
- Residual Income
- Debt to Income
- Seasoning
- Loan to Value
- Job Stability
- Housing Payment History
- PITIA Reserve

3 Eligible Borrowers

All borrowers on loans funded by Lendz Financial will be individual, natural persons.

- U.S. Citizens: as defined by USCIS.
- Permanent Resident Aliens: A Permanent Resident Alien is an individual who is not a U.S. Citizen but maintains legal, permanent residency in the United States. A Permanent Resident Alien typically maintains an alien registration card (“green card”). Alien Registration Card I-151 with no expiration or accompanied by INS form I-751
- Non-Permanent Resident Aliens: A Non-Permanent Resident Alien is an individual who is not a

U.S. Citizen but lives in the U.S. under the terms of an applicable Visa. Acceptable Visas for loan purchase are listed below. Due to the inability to compel payment or seek judgment, transactions with individuals with diplomatic immunity who are not subject to United States jurisdiction are not eligible. Non-Permanent Resident Aliens must be employed in the U.S. for the last 24 months and document lawful residency as follows:

Documentation and Expiration

All nonpermanent resident alien borrower(s) must verify they are legally present in the United States with a copy of one of the following:

- VISA
    - If expiration is within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided.
    - If Visa has expired, a valid USCIS Form I-797 confirming submitted application to renew.
- EAD Card
    - If expiration is within six months of the application the borrower must show evidence they have applied for an extension or provide letter from the employer indicating they will continue to sponsor their employment
- For residents of Canada or Mexico, H1-B status stamped on an unexpired passport
- For borrowers with income being used for qualification, see below for eligible VISA classifications.

Other than U.S. Citizens, all Eligible Borrowers must evidence their residency status by providing applicable USCIS documentation.

VISA ELIGIBILITY MATRIX				
Visa Category	**Visa Type**	**Brief Description**	**Documentation Required**	**EAD Code**
Trade Treaty Work Visa	E-1	Treaty trader - employee, spouse, and/or child	Visa and EAD	C02
	E-2	Treaty investor - employee, spouse, and/or child	Visa	
	E-3	Specialty occupation		
	E-1, E-2, or E-3D	Spouse of E-1, E-2 or E-3	Visa and EAD	A17/C12
Temporary	H-1B	Specialty Occupation		
	H-1B1	Specialty Occupation		
	H-1B2	Specialty Occupation - U.S. Department of Defense		

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

TEMPORARY EMPLOYMENT VISAS – ADDITIONAL INFORMATION			
Visa Category	**Visa Type**	**Brief Classification Description**	**USCIS Period of Stay/Extension Requirements – Income Continuity, Stability, and Dependability Considerations**
	H1-B	Specialty Occupations, DOD Cooperative Research and Development Project Workers, and Fashion Models	• An H-1B specialty occupation worker or fashion model, • May be admitted for a period of up to three years. • The time period may be extended, but generally cannot go beyond a total of six years, though some exceptions do apply.

Temporary Employment Visa	L-1A	Intracompany Transferee Executive or Manager	• Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year. • All other qualified employees will be allowed a maximum initial stay of three years. • All L-1A employees, requests for extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of seven years.
	L-1B	Intracompany Transferee Specialized Knowledge	• Qualified employees entering the U.S. to establish a new office will be allowed a maximum initial stay of one year. • All other qualified employees will be allowed a maximum initial stay of three years. • All L-1B employees, requests for extension of stay may be granted in increments of up to an additional two years, until the employee has reached the maximum limit of five years.
	O-1A/ O-1B/ O-2	Individuals with Extraordinary Ability or Achievement	• An initial period of stay for up to 3 years. • USCIS will determine time necessary to accomplish the initial event or activity in increments of up to 1 year. • New petitions involving new events or an event that, on case-by-case basis is determined to be materially different from the event in the initial petition may be approved for up to 3 years.
	P-1A	Athlete	• Individual athlete - The time needed to complete the event, competition, or performance. • This period of time cannot exceed five years. • Extensions of Stay in increments of up to five years in order to continue or complete the event, competition, or performance. • Total stay is limited to 10 years.
	P-1B	Member of an Internationally Recognized Entertainment Group	• Time needed to complete the event, competition or performance, not to exceed one year. • Extensions of Stay in increments of up to one year in order to continue or complete the same event, competition or performance for which you were admitted.

EAD ELIGIBILITY MATRIX	
Certain borrowers may hold an EAD which does not require a corresponding Visa type. Borrower's holding the **EADs noted below are eligible without a Visa.**	
EAD Code	**EAD Code Definition**
C09	Adjustment of status applicant
C10	• Nicaraguan Adjustment and Central American Relief Act (NACARA) section 203 applicants Applicant for suspension of deportation • Applicant for cancellation of removal
C24	LIFE legalization applicant
C31	• Principal beneficiary of an approved VAWA self-petition • Qualified child of a beneficiary of an approved VAWA self-petition
C33	Deferred Action for Childhood Arrivals

3.1 Eligible Vesting

Ownership must be fee simple. Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter-Vivos Revocable Trust

Vesting is permitted in an Entity for Business Purpose Investment property and 2nd home loans with the following requirements:

- Entity must be domiciled in a U.S. state.
- Business structure is limited to a maximum of four (4) owners/ members.
- Personal Guarantees must be provided by all owners/members of the Entity on the loan.
- Each Entity owner / member on the loan must sign the security instruments.
- Each Entity owner / member providing a Personal Guaranty must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of the guarantor. The application of each member/owner providing a Personal Guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.

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

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

All parties who take title to the subject property must sign the Security Instrument. All parties to the loan do not have to be on title.

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

3.2 Ineligible Borrowers

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

3.3 Borrower Types

Borrower Types	Description
Primary	The occupying borrower who earns the greater of the qualifying income.

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

3.4 Eligible Occupancy

Borrower Types	Description
Primary Residence	A Primary Residence is a property that the borrower will occupy or currently occupies as their primary residence. If there are multiple borrowers only one needs to occupy the property and take title. FTHBs are allowed. (See FNMA Guides for Primary Residence)

Second Home	A Second Home is a property that is located a reasonable distance from the borrower's primary residence and is occupied by the borrower for some portion of the year. The property must be suitable for year-round occupancy and cannot be used as a rental property. FTHBs are allowed. Second homes are limited to the following: ● One Dwelling Unit ● Condominium ● PUD ● Townhouse
Investment Property	An Investment Property is defined as a 1 to 4-unit residential property that the borrower (nor any relative of the borrower) does not occupy. Requirements: ● First Time Investor(s) are allowed with verified 12-month housing payment history. ● All investment property programs require the signed Business Purpose and Occupancy Affidavit.

3.5 Eligible Transactions

3.5.1 Purchase Money

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

- First-time Home Buyers. Must be Owner Occupied or Second Homes, only.
- Non-Arm's Length Transaction. A non-Arm's Length transaction is a transaction between family members, co-workers, friends, or anyone associated with the transaction such as the listing agent, mortgage lender or broker. The following are required if the purchase of the subject property is a non-arm's length transaction:
    - Primary Residence: The property must be the borrower's primary residence.
    - Gift of Equity is eligible: a Gift of Equity occurs when equity in a property is gifted from the owner to the borrower when the borrower and owner are related.
    - Examples of Non-Arm's Length Transactions:
        - Relatives: defined by blood, marriage, adoption, or legal guardianship. The transactions between parents, siblings, grandparents, aunt, uncle, cousin, step-child or spouse is considered Non-Arm's Length.
        - Employee/Employer

- Landlord/Tenant
- Home Builders
- Real Estate Brokers/Agents
- Third-Party Service Providers
- Seller Employees
- Owner Financed

- Delayed 1031 Exchanges only are allowed only for down payment and cash to close

3.5.2 Rate / Term Refinance

A Rate/Term Refinance transaction is when the new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepays, or buying out a co-owner pursuant to an agreement. A seasoned non-first lien mortgage is a purchase money mortgage or a closed end or HELOC mortgage that has been in place for more than 12 months (and/or not having any draws greater than $2,000 in the past 12 months for HELOC's. Withdrawal activity must be documented with a transaction history from the HELOC).

- Cash-out Limit. Cash-out to the borrower limited to the lesser of 2% of the principal or $5,000.
- Sale Restriction. Property must be removed from listing for at least one month prior to application and LTV will be based on the lesser of the list price or appraised value when listed within the last six months by the current owner.
- The new Rate/Term Refinance Loan amount is defined and limited by the following:

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

3.5.3 Cash-out Refinance Transactions

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

- Cash back as it relates to the maximum limits is defined as "cash in hand" to the borrower. Cash-out limit will follow FHLMC cash out refinance.
- Borrower on Title. At least one borrower on the new loan must be on title to the subject property at the time of application.
- loan application..
- A Cash-out Purpose Letter is required.
- Net proceeds from a cash-out transaction may be used to meet reserve requirements..
- Sale Restriction – property must be removed from listing for at least three months prior to application.
- Properties listed for sale or purchased within the last 6 months (Note to Note), require a 5% reduction in LTV.
- For properties that have been listed by the current owner within the last six months, the LTV will be based on the lesser of the list price or appraised value.
- LTV/CLTV Limit. If the subject property is owned for less than 6 months (Note to Note), then the LTV/CLTV will be based on the lesser of the original purchase price plus improvements or current appraised value.
  - Proof of Improvements -Required.
  - Proof of Purchase Price -Required as evidenced by the final Closing Disclosure (CD).
- No waiting period if the borrower acquired the property through an inheritance or was legally awarded the property through a divorce, separation, or dissolution of a domestic partnership.
- Delayed Financing. Borrowers who have purchased a subject property within the last 6 months preceding the disbursement date of the new mortgage are eligible to receive cash back with the loan being priced and treated as a Cash Out Refinance if the following requirements are met (also see FNMA Guides for additional information):
  - Arm's Length Transaction. The original purchase was an Arm's Length Transaction.
  - No Existing Mortgage Financing. The original purchase transaction is documented by the settlement statement which confirms that no mortgage financing was used to obtain the subject property.

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

3.5.4 CEMA Loans

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

3.5.5 Texas Home Equity Loans 50(a)(6)

Allowable based on FNMA Guides B5-4.1 must adhere to Article XVI, Section 50(a)(6) statue.

NOTE: Primary Residences only. Interest Only is prohibited on a Texas Section 50(a)(6) Equity Cash Out loan. Loan must be fully amortized.

3.6 Ineligible Transactions

- Assumable
- Construction to Permanent
- Temporary Buydowns
- Builder Bailout

- Conversion Loans
- Lease Options/Rent-to-Own
- Land Contracts
- Non-Arm's Length Transactions on Second Homes and Investment Properties
- Assignments of the contract to another buyer
- No Graduated Payment Mortgage Loan
- No Ground leases, No Buydown Mortgage Loan, No Pledged Asset Loan
- No Convertible Mortgage Loan - allows an ARM to convert to a Fixed Rate Mortgage
- Periodic Payment - Loans must have periodic payments due and loans cannot have more than three monthly payments paid in advance from the proceeds of the mortgage loan

4 Analysis of Credit

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

4.1 General Requirements

The lender is required to document that the borrower does not qualify for a GSE loan or has chosen a non- GSE loan program. The lender is also required to include a copy of the final loan approval.

- Merged In-file Credit Report. This report is required and must include reporting from all three national credit repositories.
- Aging. The credit report should be dated within 120 days of the Note and Mortgage.
- Debt Monitoring. An Undisclosed Debt Notification (UDN) is required within 10 days of closing date. Verification of monitoring document needs to clearly show date issued, created or printed within 10 days of closing date showing actively monitoring. We will also accept a credit refresh/gap report within a 10 day window.
- Evaluation. In general, Lendz Financial will evaluate an applicant's Credit Report to determine their willingness to pay debts. Among other things, the credit report will be reviewed for:
- Age of accounts
- Late payments frequency, severity, aging
- Account balance size

4.1.2 Credit Scores

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

A minimum of 2 credit scores are required to be provided and used to determine the qualifying credit score for loan approval. Methodology of which FICO score to use is as follows:

# of Borrowers	# of Scores per Borrower	Methodology
1	2 or 3	Lower of 2 or the Middle of 3 FICO Scores
2 or more	2 or 3	• Primary Wage Earner's Lower of 2 or Middle of 3 FICO Scores • If 2 of the 3 credit scores are identical, the identical score is your mid score • If borrowers are 50/50 owners and income is equal,the higher middle score is used

4.1.3 Tradeline Requirements

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

Required Tradelines	Active Reporting Period	Min FICO Required	Max DTI Required
3 Tradelines	≥ 12 months	N/A	N/A
Or			
2 Tradelines	≥ 24 months	N/A	N/A

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

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

4.1.4 Credit Reporting Data Included in DTI Ratios

- Installment Debt. All installment loans (monthly obligations with fixed payments and terms) must be included in the borrower debt-to-income ratio.
    - Excluded from DTI: payments of 10 months or less (if the payment exceeds 5% of the borrower's qualifying income, then the seller must keep the remaining payments in the DTI)
    - Excluded from DTI: any installment debt that is paid prior to or at closing can be excluded from the DTI. Supporting documentation is required to verify that these debts have been paid.
- Revolving Debt is an open-ended debt obligation in which the principal balance may vary each month. The minimum required payment stated on the credit report or the current account statement must be used to calculate DTI. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the DTI unless we have sufficient documented excess reserves to cover full reporting account balance.
    - Excluded from DTI: revolving accounts can be paid off prior to or at closing to exclude the payment from DTI. Supporting documentation such as a credit supplement or verification from creditor is required.
- Lease Obligations must be included in the DTI regardless of the time remaining on the lease.
- Child Support, Alimony or Maintenance Obligations. Must be current at the time of application
- and must be included in the DTI. The loan file should contain supporting documentation (such as a final divorce decree, legal separation agreement or court order) evidencing the obligation. If payments are delinquent, then they must be brought current prior to the loan closing.
- Contingent Liabilities. An individual has contingent liabilities when an outstanding debt obligation has been assigned to another party, but the creditor has not released the borrower from the obligation. Contingent Liabilities must be included in the DTI.
    - Excluded from DTI: If one borrower was obligated to buy-out the other borrower because of a divorce, then the loan file should include the Separation Agreement and or the Divorce Decree/Court Order that shows transfer of ownership. In addition, the current

obligation on the premise must be current.

- Excluded from DTI: Debts paid by others can be excluded from the DTI Ratio if the debt is being paid in a satisfactory manner by another party for the past 6 months. Acceptable documentation would include cancelled checks or bank statements that consistently show another party making at least the past 6 payments.

- Paystub Deductions will be reviewed and included in DTI (excluding 401(K) repayments).

4.1.5 Credit Reporting for Business Debt

Business debt is typically a financial obligation of a business. However, business owners can sometimes be personally responsible for that debt as well. If business debt is reflected on a personal credit report. If the business debt facility is less than 6 months old, then the payments must be included in the debt-to-income ratio. If the business debt is greater than or equal to 6-months old, the debt may be omitted from the debt-to-income ratio if the borrower provides documentation that the borrower's business is making the payments on these debts. Permissible documentation can be the following:

- Canceled Checks. Most recent 6 months of canceled checks drawn from the business account.

- Tax Returns. Returns must reflect debt payments as business expense deductions.

4.1.6 Housing History

Verification of Mortgage/Verification of Rent (VOM/VOR): Applications must be supported by the most recent 12 months mortgage and/or rent pay history (24 months required for WVOE loans). A VOM must be obtained for all outstanding mortgages the borrowers have if not evidenced by their credit report, including private mortgages.The VOM/VOR is reviewed for delinquencies with the greatest weight focused on the last 12 to 24-months depending on housing history requirement (0x30x12 or 0x30x24). Verification needs to reflect pay history up to date as of application date. If Credit Bureau Report does not reflect pay history required, other acceptable methods of verification are as follows:

For mortgage payments

- VOM ordered from Mortgage Servicer
- Electronic Pay History printout directly from Mortgage Servicer showing timely payments
- Bank Statements showing account ownership and timely payments debited by Mortgage Servicer
- Cancelled checks front and back as well as the most recent mortgage statement
- For private mortgages, provide a fully executed VOM together with either bank statements showing account ownership and timely payments debited by Mortgage Servicer OR cancelled checks front and back along with the most recent mortgage statement

For rental payments

- If was/is renting from a private party, either fully executed VOR OR most recent lease for each address, along with verification of timely payments made (either canceled checks front and back OR bank statements showing account ownership and payments debited by landlord) are required

- If was/is renting from a management company, either fully executed VOR OR most recent lease, along with payment history ledger from management company, canceled checks front and back OR bank statements showing account ownership and payment debited by management company.

4.1.7 No Housing History or Less Than 12 Months Verified

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

- Primary residence only
- Minimum 6 months reserves after closing
- 10% minimum borrower contribution
- Max 45% DTI
- Fully executed VOR/VOM must be obtained for all month's available reflecting paid as agreed, if applicable.
- Properties owned free and clear are considered 0x30 for grading purposes.

Borrowers who own their primary residence free and clear for a minimum of 12 months are acceptable. Borrowers living rent free with a spouse are acceptable with rent-free letter from spouse and evidence of spouse's mortgage. Properties owned free and clear are considered 0x30 for grading purposes.

Borrowers living rent free with a spouse are acceptable with rent-free letter from spouse and evidence of spouse's mortgage or current lease. Borrowers living rent free with anyone other than spouse are not eligible however could be reviewed for exception on a case-by-case basis with strong compensating factors.

4.1.8 Other Credit and Credit Reporting Requirements

- Authorized Users of Credit. Credit report tradelines in which the applicants are "authorized users" may not be considered in the underwriting decision except in certain circumstances such as those listed here:
  - Another borrower in the mortgage transaction is the owner of the tradeline.
  - The borrower is an authorized user on a spouse's credit report tradeline.
  - The borrower can provide written documentation that he or she has made at least 50% of the payments of the monthly payment on the account for at least 12 months preceding the date of the application.
- Student Loan payments and deferment will be reviewed in accordance with FNMA guides.

4.1.9 Credit Counseling, Collections, Judgements, Liens

- Judgements, Garnishments and Liens: The borrower is required to pay-off all open judgements, garnishments, and liens (including mechanics liens or material men's liens) prior to the loan closing.

- Credit Counseling Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan.

    - If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, then exclude these balances from the charge-off and collection limits listed below. The monthly CCCS plan payment must be included in the DTI calculation.
    - If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency eligible establishing the date of completion.
    - Collection Accounts and Charge-offs do not have to be paid in full if the following applies:
    - Collections and charge-offs < 24 months old with a maximum cumulative balance of
    - $2,000,
    - Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence,
    - Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required),
    - All medical collections.
    - Exception: IRS repayment plans with 3 months history of payments may remain unpaid.
    - Past Due Accounts must be brought current.

4.1.10 Forbearance, Deferred Payments, Modifications

- COVID Forbearance must be released and fully current.

- Non-COVID deferred payments are unacceptable credit events and disqualifies borrower(s) from financing.

- Mortgage Loan Modifications are acceptable with 36 months seasoning, min 720 FICO and no additional credit events after modification. Examples of mortgage loan modifications are:

    - Forgiveness of a portion of principal and/or interest on either the first or second mortgage.

    - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.

    - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage.

    - Conversion of any portion of the original mortgage debt from secured to unsecured.

4.1.11 Significant Adverse Credit

Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off Mortgage and or Foreclosure must be seasoned at least 36 months from time of application for Platinum Programs.

5 Capacity

For all loan programs and/or Income options , any decline or large fluctuation in income that is documented in the file requires an explanation from the borrower regarding decline/fluctuation.

5.1 Bank Statement Analysis

When analyzing Business Bank Statements, the Lender must verify the borrower's percentage of ownership. Acceptable forms of documentation that clearly states ownership percentage would be a Business License, a signed written statement from a CPA or a Third-Party Tax Preparer (excluding PTIN tax preparers), Operating Agreement reflecting borrower as "single member", Articles of Incorporation/Articles of Organization that reflects the borrower as President, Director, or Officer of the company and his/her name is the only name listed, a Partnership Agreement, a Business Certificate filed with a governmental agency. Self-employed borrowers can use either personal or business bank statement documentation. The following apply to both types of documentation:

- Personal History. Borrowers should be self-employed for at least two years. However, a borrower may qualify with less than two years but more than one year if the borrower can document at least two years of documented previous successful employment in the same line of work in which the person is self-employed or related occupation or one year of employment and formal education or training in the same line of work.

- Businesses History. Business should be established and have been in existence for the past two years. However, if a borrower is qualifying with less than two years but more than one year of self- employment, then the business should be established for the same length of time.

- A Third-Party Verification that the business is in existence and in good standing is required.

- Like-to-Like Accounts. All parties listed on a personal bank account used for income must be included as borrowers on the application.

- Recent and Continuous. Statements used for income must be consecutive and reflect the most recent months available.

- Stability. Statements must support stable and generally predictable deposits; large and unusual deposits must be sourced if they cannot be sourced, they will be excluded. Cash is not an acceptable deposit source.

- Earnings Decline may result in loan disqualification.

- Net Decrease. Withdrawals consistently greater than deposits will be considered declining cashflow/income. LOE from borrower or their tax preparer must be satisfactory. *The CPA/Licensed Tax Preparer (excluding PTIN tax preparers) must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated or /associated with the borrower's business if they have not done so somewhere else in the loan file.

- Non-Sufficient Funds (NSF): Lendz Financial considers Non-Sufficient Funds as any account going negative and staying negative for more than 24 hours. Non-Sufficient Funds typically result in a fee charged by the financial institution. Lendz Financial will allow three Non-Sufficient Funds within the last 12 months. LOE must be satisfactory.

- Overdraft protection (OD): Lendz Financial considers an overdraft to be an event where an account has gone negative but is linked with another account or line of credit with the same financial institution. Lendz Financial will allow these and treat them as an isolated incident provided the account does not reflect a negative balance and shows a transfer from another account. LOE must be satisfactory.

- Transfers will also be excluded unless it is a wire transfer in from another company for services rendered.

- Lendz Financial will consider other forms of income used in conjunction with the Bank Statement Program such as W2 income or fixed income such as Social Security Benefits.

- When a signed and dated Third Party P&L is provided, it must cover the same dates as the bank statements.

- Business Narrative documentation prepared by borrower explaining at minimum the nature of the business/ operations and must include the number of full-time employees and or contractors.

5.1.1 Personal Bank Statements

The following documentation is required:

- 12 or 24 months complete personal bank statements (multiple bank accounts may be used). Dated within 30 days of application: and

- Two (2) months business bank statements (to support the borrower does maintain separate account(s)). If business bank statements cannot be provided to evidence a separate business account, then a 10% expense factor may be applied as long as there is no indication that the personal assets are a co-mingled account.

- Transaction histories are not acceptable.

- The Initial 1003 with monthly income disclosed.

- Business narrative prepared by borrower explaining a minimum the nature of the business, operations and must include the number of Full-Time employees and or contractors.

- Bank statements reflecting other individuals except non-borrowing spouses who are not applicants on the loan are not eligible.

- When spousal joint accounts are used, the borrower must be 100% owner of the business, all income/deposits from the non-borrowing spouse must be removed and all parties must attest in writing to the income belonging to the applicant.

The following apply when analyzing personal bank statements:

- 100% of personal bank account deposits.
- Large deposits and any unidentified deposits as determined by the underwriter must be sourced.
- Transfers will be excluded unless they are from a documented business account.
- Cash is not an acceptable deposit source.

NOTE: Qualifying income will be total net deposits divided 12 or 24 (or net deposit reduced by applicable expense ratio when no supporting business accounts are provided)

1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income.

5.1.2 Business Bank Statements

The following documentation is required:

- 12 or 24 months of complete business bank statements from the same account. (If an account has been moved to a different Bank and is shown to be one and the same, that will be acceptable). Co- mingling of multiple accounts to generate a full 12 or 24 months is not permitted.
- Each loan requires a CPA or borrower prepared and signed Business Narrative that includes at minimum details related to the description, nature, size (full-time employees and or contractors) and scope of the business. The underwriter will evaluate the reasonableness of the expenses listed by the borrower. Initial 1003 with monthly income disclosed (Signed).

The following apply when analyzing business bank statements:

- Reasonable and Customary Eligible Business Expenses from personal bank accounts:
    - Personal bank accounts that are addressed to a DBA.
    - Personal bank accounts that can evidence use for business expenses.
    - Blended bank statements are allowed on a case-by-case basis with sole proprietor structure.
- Wire transfers from other accounts must be either documented or excluded.
- Declining balances will require a detailed LOE.
- Transaction histories are not acceptable.

- Borrower must be at least 25% owner of the business. If multiple owners, then the income used will be based on ownership percentage(s).
- Third-Party verification of business existence.
- Business Bank Statements must be consecutive and from the most recent period.
- Cash is not an acceptable deposit source.

Qualifying Income will be determined based on one of the following calculations below:

- Percentage of Gross deposits as calculated using a fixed expense ratio factor of 50%.

OR

- Percentage of gross deposits as calculated using a fixed expense ratio factor as provided by a Certified Public Accountant, Enrolled Agent, CTEC or Chartered Tax Adviser. *We do not allow PTIN tax preparers. The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business.

OR

- The monthly net income using a net income average from a validated third-party prepared P&L. The total deposits calculated with 12 or 24-months of business bank statements are used solely to validate third-party prepared P&L. P&L statement covering the same 12- or 24-month period as the bank statements. **Borrower prepared P&L will not be permitted under any circumstances.** The Certified Public Accountant, Enrolled Agent, or Chartered Tax Adviser must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business. *We do not allow PTIN tax preparers

1003 Initial Disclosed Income: Income disclosed on the initial signed application should be reviewed. If income calculated is significantly different than income stated on the 1003, the underwriter should request an explanation from the borrower to determine acceptability of the income.

5.2 Rental Income

Rental income can be utilized on the following loan programs:

- 12-24 Bank statement analysis
- P&L Only
- 1099 Reduced Doc
- Asset Depletion

Borrowers desiring to use rental income from investment properties not associated with the business, may do so by providing a current active lease together with proof of rent payments received for the most recent 2 months.

If newly executed lease for new tenants, provide proof of receipt for deposit and 1st months' rent.

If subject property leased on a short-term basis utilizing an on-line service such as Airbnb or VRBO, gross monthly rents can be determined by using a 12-month look back period; and either 12-monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. In addition, a screen shot of the online listing must show the property is activity marketed as a short-term rental. 1007 rents specifically addressing STR may be allowed when property is located in an established short-term/vacation market, on a case-by-case basis.

If attempting to use rental income from a departing residence OR Investment property purchase with no rental income history (vacant), an appraisal 1007 or 1025 (as applicable) will be used to determine gross market rent.

Properties defined as a one-unit property with an accessory unit (ADU) may use rental income from the accessory unit subject to the following:

- Appraisal to reflect zoning compliance is legal
- Permit is not required to establish zoning compliance
- Appraisal to include at least one comparable with an accessory unit
- At least one sales comparable with an ADU and at least one rental comparable with an ADU is required.
- Multiple accessory units are not permitted

Refinance - Market rent for the necessary unit should be documented on FNMA 1007, and the file must include a copy of the current release with two months proof of current receipt.

Purchase - Owner-Occupied/2nd Home: Income from the accessory unit may not be used as qualifying income. Non-Owner Occupied: Use the lesser of the market rent on FNMA Form 1007 or actual rent.

In all instances, qualifying rental income will be gross rents x 75%. (25% of the gross rent is absorbed for vacancy losses and ongoing maintenance expenses.)

5.3 P&L Only

Required Documentation if utilizing a Profit and Loss Statement for income validation:

- Profit and loss covering the most recent previous 12 or 24 months (depending on loan program), valid if the most recent month is dated within 90 days of close completed by Certified Public Accountant, Enrolled Agent, CTEC, Chartered Tax Adviser or Independent Licensed Accountant. *We do not allow PTIN tax preparers.

- To be reviewed, the appropriate 3rd party must sign and date the Profit and Loss documentation which indicates the accuracy of the profit and loss statement. (Unless a preparer signed cover letter or similar document accompanies P&L delivery that specifically states they prepared the P&L provided)
- The CPA/Licensed Tax Preparer must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated or /associated with the borrower's business if they have not done so somewhere else in the loan file.
- Proof that the appropriate 3rd party completing the review is duly licensed, or certified - Certification, or licensing proof is acceptable if verified by professional services directory, government listing, or other reasonable 3rd party (Certification proven by other reasonable methods may be allowed at underwriter discretion)
- Proof the business has been in operation for 12 months or greater. (24 months required for 24 month P&L program)
- Proof of business ownership percentage if business is a corporate entity and profit and loss covers business.
- 3rd-party documentation from which the borrower's ownership percentage can be determined.
- Documents which are not required to list all owners do not meet this requirement.
- P&L only is an Alternative Documentation type and will be priced under the Platinum Program.
- Profit and loss statements not meeting the requirements of this section, or which are suspicious in nature, may require additional verification.

NOTE: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

5.4 Written Verification of Employment (WVOE)

Borrowers who have a two year history of employment with the same employer may utilize this program subject to the following:

- WVOE must be completed on the Fannie Mae Form 1005 sent directly to and received directly from the employer. The employment information must be completed by Human Resources, Payroll Department or an Officer of the company. Borrowers employed by family members or related individuals are not eligible.

- Paystub, Tax Returns or W2s are not required.

- Form 4506-C is required.

- One (1) Month Personal Bank Statements are required to support the WVOE. The bank statements must reflect deposits from the employer supporting at least 65% of gross wage/salary reflected on the WVOE.

- The only eligible source of income is limited to Wage/Salary. Supplemental income sources such as commissions or rental income are not permitted.
- An internet search of the business is required with documentation to be included in the credit file to support existence of the business.
- VVOE within 10days of closing is required.

The following apply when using WVOE only:

- Minimum FICO 680
- Primary Residence Only
- Max LTV 80% for purchase/R&T
- Max LTV for cash out is 70%
- 0x30x24 housing history
- FTHB maximum LTV 70% & 45% DTI
- No gift funds allowed.

5.5 1099 Reduced Doc Income

Borrowers who have a two-year history of receiving 1099 only or have recently converted from W2 to 1099 and have at least one year of receiving 1099 in the same line of work may utilize this program.

- Borrower must provide the following:
  - 1099 for the previous year tax year, payable to the borrower and not a business
  - Verification of Employment from the current contract employer covering the most recent two years plus Year-to-Date earnings, likelihood of continued contractor status and whether the contractor is required to pay for any business-related expenses (non-reimbursed)
    - If the verification does not reference related expenses, then a Fixed Expense Ratio of 10% may be used.
  - Most recent two months proof of receipt is required in the form of paystubs, checks or bank statements.

NOTE: If WVOE cannot be obtained for any employers in 2 year history, need LOE regarding extenuating reason it cannot be obtained as well as year end and year to date paystubs from all employers to support income calculation.

NOTE: Supplemental income such as W2 or SSI may be included with this loan program provided it is not the dominate income type or conflicts with primary income calculation. Supplemental income should be documented in accordance with full doc income requirements.

5.6 Asset Depletion

Asset Depletion may be used to determine qualifying income both alone and in conjunction with other documentation options. Asset Depletion is considered to conform to the Platinum Alt Doc Program from a credit and pricing standpoint. Please see the applicable Lendz Financial Matrix for restrictions. Asset Depletion is not permitted on cash-out or debt consolidation transactions. Asset Depletion is permitted on primary residences and second homes. Gift funds are not permitted.

Qualified Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. Proof of six-month seasoning of all assets is required.

- The following assets are considered Qualified Assets and may be utilized to calculate income:
  - 100% of checking, savings, money market accounts, and marketable securities
  - 80% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)
  - 100% of 401k, Retirement assets (Eligible retirement age of 59 ½)
  - Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible).
  - For cryptocurrency, if a borrower transfers cryptocurrency into a U.S. banking account prior to closing, a 40% reduction in value is not required
- Calculating Qualifying Income:
  - Borrowers must have at least 1.5 times the loan balance in Qualified Assets, which must be net of down payment, closing costs, and required reserves to qualify.
  - The income calculation is as follows:
  - Monthly Income = Net Qualified Assets / 84 Months

5.7 Asset Utilization

Asset Utilization may be used for borrowers who have significant verifiable assets and would benefit from alternative loan qualifications. Asset Utilization is considered to conform to the Platinum AltDoc Program from a credit and pricing standpoint. Asset Utilization may be used with any occupancy type.

Please see the applicable Lendz Financial Matrix for restrictions. Gift funds are not permitted. Balances of qualifying assets must be verified within 10 days of Note Date.

- **DTI:** A traditional DTI is not calculated for NQM Asset Qualification. Rather, the borrower(s) must have sufficient post-closing liquid assets > the sum of the items noted below:

- 100% of the loan amount.
- 60 months of all revolving installment, alimony/child support, and mortgage related expenses including the subject property TIA qualifying payment.
- Subject property reserves requirements based on loan amount as detailed in the Reserves section of this guide.

- **Mortgage Related Expenses:** As referenced in the second bullet point above, mortgage related expenses must be accounted for in the 60-month calculation.
    - Subject Property: Exclude the subject P&I from the 5-year calculation (i.e. only include taxes, insurance HOA, special assessments, etc.).
    - Non-Subject Properties: Include the PITIA of additional REO in the 5-year calculation. Whenever additional REO is an investment property, the PITIA for that property may be excluded from the coverage requirement provided the property has positive cash flow. If the investment property has negative cash flow, any net negative rental amount must be multiplied by the 60-month term with the resulting amount added to the required assets. Leases + 2 month's most recent rent receipts are required to document the rental income received for an investment property (Form 1007 is not required). A 25% vacancy factor must be applied to the monthly rent prior to calculating positive/negative cash flow for the property. Net rent can never exceed $0.
    - Short-Term Rentals: Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g. short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement. Short-term rentals are permitted. Proof of receipt for the most recent 24 months is required. Use documented 24 months of payments to derive the monthly rental amount average. If no rent is received, use zero for that month.
- **Installment Debt:** Installment debt that is not secured by a financial asset (including student loans, automobile loans, and home equity loans) must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining. Paying down installment debt to ≤ 10 remaining payments to avoid including in the required assets calculation is not permitted. Paying off installment debt completely is permitted.
- **Qualified Assets:** Assets may be comprised of stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. Increases or decreases of greater than 15% over the six (6) month period (i.e., compare month 1 to month 6) must be explained by the borrower. Additional supporting documentation may be required. Proof of six-month seasoning of all assets is required.

  The following assets are considered Qualified Assets and can be utilized to calculate income:

    - 100% of checking, savings, and money market accounts
    - 60% of the remaining value of publicly traded stocks & bonds & mutual funds

  - 70% of 401k, Retirement assets (Under eligible retirement age of at least 59 ½)
  - 70% of 401k, Retirement assets (Eligible retirement age of 59 ½)
  - 100% of cash value of life insurance policy
  - Personal funds in the borrowers name only (business funds and joint accounts with individuals not on the loan are not eligible)

- **Ineligible Asset Types**
  - Gift Funds
  - Business funds
  - Non-liquid assets (automobiles, artwork, business net worth etc.)
  - Annuities of any type
  - Face value of a life insurance policy
  - Foreign Assets
- **Residual Income:** In accordance with ATR standards, a monthly residual income calculation must be completed. The formula for this calculation is:
  - Total Assets (as detailed in Eligible Asset Types above) / 60 months = Total Monthly Income
  - Total Monthly Income – Total Monthly Debt Obligations (Expenses) = Monthly Residual Income
  - Monthly Residual Income must meet or exceed the following requirement:
    - Minimum of $1,500
  - Note: Required reserves are not deducted from Total Assets when calculating residual income.
- **Employment and Income:** Employment and Income are not required to be disclosed on the 1003 loan application. If not disclosed, enter “Not applicable to this loan” in the respective fields. A secondary contact phone number must be reflected in the business phone number section on the 1003 (for consumer contact purposes only).
- **Tax Transcripts:** Form 4506-C is NOT required for NQM Asset Qualification.
- **Borrower Affirmation:** The borrower must acknowledge their ability to repay the loan by signing a Borrower Affirmation Document at closing.

5.8 Monthly Debt

See Credit Matrix for specific program requirements.

- DTI = total monthly debt ÷ total monthly gross income.
- Monthly debt service used to calculate DTI must include the following:
    - Total monthly housing expenses.
    - Monthly mortgage principal and interest, hazard and flood insurance, real estate taxes, special assessments, association dues and any subordinate financing payments on mortgages secured by the subject property (PITIA).
    - Recurring installment debts.
    - Revolving and open-ended account payments, regardless of the balance.
    - Child support or separate maintenance payments and alimony.
    - Other continuing obligations.
    - The maximum allowable DTI varies depending on the loan program. Please refer to Lendz Financial's Credit Matrix for maximum allowable DTI.

5.8.1 Payment Shock

- Payment shock is limited to 300% for a FTHB unless the DTI equals to or less than 36%. Payment shock will be reviewed on all other loans to ensure capacity has been met but there is no specific maximum that must be met.
- Payment Shock Calculation = ((Proposed Housing Payment / Present Housing payment) x 100) - 100

5.8.2 Residual Income

$1,500 Residual Income is required on all loan products.

5.8.3 Borrower ATR Certification

Loans subject to Reg Z. Ability to Repay must include a borrower(s) certification attesting to the following:

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

NOTE: An underwriters detailed attestation regarding borrowers ability to repay is acceptable in lieu of signed borrower disclosure for all loan programs except Asset Depletion or Asset Utilization.

(See Appendix Section 9 for a sample Borrower Attestation Document)

5.8.4 Subordinate Financing

Lendz Financial allows subordinate financing provided the following conditions are met:

- The subordinate financing doesn't have a negative amortization or interest only feature.
- Subordinates with prepayment penalties are not allowed.
- All subordinate financing must be from a Financial Institution.
- Subordinate financing payment must be included in the DTI calculation.
- Max LTV/CLTV cannot exceed Max LTV in Credit Matrix.
- Required Documentation for subordinate financing:
- Copy of the Note
- Copy of the Subordination Agreement

5.8.5 Adjustable Rate and Interest Only Qualifying

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

5.9 Assets

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

- Checking and Savings (100%)
- Certificates of Deposit (100%)
- U.S. Savings Bonds (100% if fully matured, otherwise 80%)
- Marketable Securities (75% net of margin debt). Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded.
- Restricted Stock Units (RSU). Refer to FNMA Guides.
- IRA, Keogh, and 401(K) Retirement Accounts (60 % of vested balance less outstanding loans secured against it) including ROTH. Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility
- Pension Plans (60%). Only amounts accessible within a 30-day window are allowed Account statements should be updated with a transaction history dated within 30 days of note date due to market volatility
- Annuities (60%). Only amounts accessible within a 30-day window are allowed.
- Trust Accounts (100%). Must review a copy of the full Trust.
- The use of business assets for self-employed borrowers for down payment, reserves and closing costs are allowed. The borrowers on the loan must have 50% ownership of the business and must be the owners of the account. Access letters from the remaining owners of the business must be obtained as well. A letter from a CPA, Third-Party Tax Preparer (excluding PTIN tax preparers) or borrower must be obtained verifying that the withdrawal of funds for the transaction will not have a negative impact on the business. The CPA must attest that they have audited the business financial statements or reviewed working papers provided by the borrower as well as attest that they are not affiliated/associated with the borrower or their business. If a CPA letter is not provided, a cash flow analysis of the business assets and liabilities (balance sheet) must be completed by the client to determine if the withdrawal of funds from the business is acceptable. If no balance sheet provided, we will accept lender cash flow analysis of 12 months business bank statements.
- Spousal accounts - Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the requirements outlined in 6.7.1 Verification of Assets. Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements.
- Crypto Currencies, Bitcoin and Ethereum, are an eligible source of funds for down payment and closing costs and reserves. For down payment and closing cost, the assets must be liquidated and deposited into an established US bank account. For reserves, documentation to prove ownership of the crypto holdings must be provided together with verification of current valuation from the Coinbase Exchange within 30 days of Note date at 60% of the current

valuation. Crypto currency is not an eligible liquid asset for asset utilization/depletion.

- Delayed 1031 Exchange funds for “like-kind exchange” are eligible for EMD, down payment and closing costs. 1031 Exchange funds are ineligible for reserves.

5.9.1 Verification of Assets

The lender may use any of the following types of documentation for verification.

- Verification of Deposit (VOD) Form. The information must be requested directly from the depository institution. The completed, signed, and dated document must be sent directly from the depository institution.
- Bank statements and investment portfolio statements.
- Complete copies of bank statements or investment portfolio statements from the most recent 30 days prior to the application date. The statements must cover account activity for the most recent 30 days. A summary statement will not be accepted.
- The statements may be computer generated forms, but must include or state the following:
    - Clearly identify the borrower as the account holder, the account numbers, the time the statements cover. Include all deposits and withdrawal transactions. The report must include the previous close balance, the current balance, and the ending account balance.
    - Retirement account statements must be from the most recent period and identify the borrower’s vested amount and terms.

5.9.2 Other Requirements

- Assets must be seasoned 30 days and any large deposits are required to be sourced.
- Second Homes and Investment Properties. The borrower must demonstrate they have 10% of their own funds for the down payment.
- Gift Funds.
    - 100% of gift funds are allowed on owner-occupied transactions.
    - A minimum of 10% of borrower own funds must be verified on second home and investment property transactions before gift funds may be used
    - Gifts must be from a family member. Gifts can be used to pay off debt.
    - Gift funds cannot be counted towards reserves.
    - Purchase transactions only
- Unsecured loans, sweat equity, and gifts that require repayment are not eligible for sources of down payment.

5.9.3 Reserves

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

** Reserves are not stacked.

5.9.4 Seller Concessions

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

Seller Concessions include:

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

6 Collateral

6.1 Eligible Property Types

- Single Family Dwelling
- Single Family Dwelling with 1 Accessory Unit (ADU)
- Multi Family Dwelling

- Planned Unit Development (PUDs)
- Condominium
- Co-Ops
- Modular homes
- Leaseholds (in areas where leaseholds are common)

6.2 Ineligible Property Types

Assisted Living

Agricultural properties

Barndominiums
Boarding houses
C5 or C6 property condition grades
Commercial properties
Geodesic domes
Log Homes
Manufactured housing or Manufactured Homes

Work escrows are not allowed

Mixed Use
Properties with less than 500 square feet living space
Properties Under Construction
Rural properties greater than 20 acres
Tenancy in Common properties
Time-shares
Unique Properties
Working Farms

Vacant lots

No Mortgage Loans financing builder inventory is allowed

6.3 Declining Markets

Properties with appraisals that show the "Neighborhood – Housing Trends" marked as Declining may be subject to a reduction in LTV/CLTV. The distinction of a Declining market is determined by the Appraiser. Appraisers are required to pull median house price data over the last 12 months and analyze it to determine the market trends for that area and property type.

DECLINING MARKETS			
Required to be applied for LTVs >65%			
Property Value	**Demand**	**Market Time**	**Reduction to LTV**
Declining	Shortage or In Balance	Under 3 Months	5%
Declining	Shortage	3-6 months	5%
Declining	In Balance	3-6 months or >6 Months	5%
Declining	Over Supply	Over 6 months	5%

6.4 Flips

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

Flip transactions are subject to the following requirements:

- All transactions must be arm’s length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing
- No assignments of the contract to another buyer
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the borrower must be obtained
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at https://www.consumerfinance.gov/compliance/compliance-resources/mortgage-resources/higher-priced-mortgage-loans-appraisal-rule/. A second appraisal is required in the following circumstances:
    - Greater than 10% increase in sales price if seller acquired the property in the past 90 days
    - Greater than 20% increase in sales price if seller acquired the property in the past 91- 180 days

6.5 Transferred Appraisals

- Appraisal transfers are allowed when an appraisal was completed prior to the loan being closed. Appraisal transfers are subject to the following requirements:
- The appraisal must be less than 60-days old (less than 120-days at closing) and ordered through an approved Appraisal Management Company.
- A letter must be obtained from the original lender on company letterhead stating they are transferring the appraisal to the approved Lendz Financial lender. The letter must transfer the ownership and rights for the specific transaction.
- The Lender must certify they have complied with Federal, State and FNMA Appraisal Independence requirements.
- An appraisal delivery form must be provided to the borrower to confirm the borrower’s receipt of the appraisal within three (3) business days of the report’s completion.

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

NOTE: Subject to FIRREA Requirements; if corrections are required, it is the Sellers responsibility to work with the previous lender to obtain them and Lendz Financial will not review.

6.6 Project Review Warrantable

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

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

6.7 Project Review Non-Warrantable

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

NON-WARRANTABLE CONDOS	
CHARACTERISTIC	EXCEPTION CONSIDERATIONS
COMMERCIAL SPACE	Subject unit 100% residential. Commercial space in building/project < 50%. Any commercial must be "typical to the marketplace and have no negative impact on marketability. Commercial % determined by appraiser. Commercial entity cannot control HOA.
COMPLETION STATUS	The project, or the subject's legal phase along with other phases, must be complete. All common elements in the project or legal phase must be 100% completed. At least 50% must be sold or under a bona- fide contract.
CONDOTELS	• 50% of the total units in the project or subject's phase must be sold or under contract. • Project or subject's legal phase along with other development phases must be complete. All common elements in the project or legal phase must be 100% complete. • Project may be subject to additional phasing • HOA should be in control – project under Developer or Builder control will be considered on a case-by-case basis only • Maximum LTV/CLTV Purchase: 75% • Maximum LTV/CLTV R/T and Cash-Out: 65%

CONDOTELS (cont'd)	• Minimum Loan Balance: $150,000 • Maximum Loan Amount: $1.0 million • Max DTI 50% or Min DSCR of 1 • Primary, Second Home and Investments • Investor concentration, within the subject project, may exceed established project criteria, up to 100% • Minimum square footage of 500 and at least 1 Bedroom required • Fully functioning kitchen – define as a full-size appliance including a refrigerator and stove/oven • Projects with names that include the words "hotel," "motel," "resort," or "lodge" are acceptable • Project must have obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines
DELINQUENT HOA DUES	No more than 20% of the total units in the project may be 60 days or more past due on the payment of condominium/association fees.
INVESTOR CONCENTRATION	Investor concentration in project up to 60%. Higher percentages may be considered under the Investment Property Program when an established history of a high percentage of rental units in the condo project can be demonstrated.
HOA CONTROL	The developer may be in control of the condominium association provided the Master Agreement provides for the homeowners to take control upon either a predetermined percentage of unit sales or within a defined time period.
HOA RESERVES	HOA Budget must include a dedicated line item allocation to replacement reserves of at least 8% of the budget.
LITIGATION	Pending litigation may be accepted on a case by case basis. Litigation that involves structural issues, health and safety issues or items that will impact the marketability of the project will not be accepted.

NEW PROJECTS	The project or the subject's legal phase along with other phases must be complete. All common areas in the project must be 100% complete. Minimum of 50% of units must be sold or under contract.
SINGLE ENTITY OWNERSHIP	Single entity ownership in project up to 25%.

6.8 Appraisal

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

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

6.9 Valuation Overview

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

- Uniform Appraisal Standards
- Appraiser Independence
- Appraiser Competency
- Fair Lending Requirements

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

Appraiser Independence

Lendz Financial expects to receive honest, unbiased professional opinions of value.

- Appraisers must have no direct or indirect interest, financial or otherwise in the subject property or with the involved parties.
- Lendz Financial prohibits associates from asking appraisers to report a predetermined value or withhold disclosure of adverse features.
- All appraisals must be ordered through an Appraisal Management Company (AMC)
- We will not accept an appraisal from an appraiser who works for the lender, borrower or any parties affiliated with the transaction.

All appraisals will be following the Appraiser Independence Requirements pursuant to the Dodd-Frank Wall Street Reform and the Consumer Protection Bureau Act of 2010. Compliance with the Appraiser-Independence Requirements will be reviewed by in independent third-party.

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

Appraisal Reviews

Appraisal reviews are required for all loan amounts. Any loan amount over $2,000,000.00 will require two full appraisals. The lesser of the two is to be used for valuation for the loan file. When two full appraisals are provided an additional valuation, report is not required. However, when only one appraisal is provided the follow the below to determine if a secondary report is required.

When the LCA/CU score is greater than 2.5 a Collateral Desktop Analysis (CDA) from Clear Capital Appraisal Management, Appraisal Risk Review (ARR) from Pro Teck, or similar independent vendor is required. If you have either one or both LCA/CU score at 2.5 or less this is acceptable if the reports were both pulled around the same date.

- If a valuation from either of these companies is less than 90% of the appraised value, then the LTV will be calculated using the lower of the CDA or the ARR value.

- If CDA or APR are not available, then another appraisal is required.

- All mortgage transactions, whether it is a purchase or a refinance, will require a Disaster Inspection Report. The practice of obtaining a Disaster Inspection Report should continue for a minimum of 90 days from the date of the disaster and display a completion date that doesn't exceed 15 days prior to the loan closing.

- On all Purchase Money Transactions, closing instructions should indicate that no credits for property condition are allowed and there should be no seller concessions due to damage to the property that was caused by the declared federal disaster.

6.10 Title Insurance Requirements

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

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

Eligible title insurance must reflect the following:

- The effective date of the commitment should be dated within 120 days of the signing of the note and the mortgage. If the date exceeds 120 days, the title company must update the commitment with either gap coverage or an updated commitment. Please note that Texas loans must be within 90 days.

- Title insurance is required, the amount of the policy must be the same as the amount of the loan.

- At least one borrower on the new loan must be on title to the subject property at the time of application

- loan application.

- All title vesting must be reviewed to insure it is as it appears on the application. All title holders are required to authorize the mortgage transaction which is accomplished by requiring all non-applicant title holders to sign certain closing documents.

- When title insurance is required on a property that is held in trust, the trust agreement must be reviewed and approved by the title company and Seller's underwriters. Lendz Financial will not allow loans that are held in an Irrevocable Trust.

- The definition of the estate should be Fee Simple.

- For a purchase loan, the vesting will state the seller's name(s) and should match the purchase contract. A deed transferring title will be required at closing.

- The Legal Description for the property should appear as it does on the appraisal and the application. The tile report must contain the entire legal description and may be identified by lot and block or metes and bounds description.

- The original title commitment should be countersigned by an authorized person from the title company.

- Title report should show the appropriate lien position. It will also show if there are any exceptions listed on the commitment.

- Outstanding mortgages on the subject property are also listed on the preliminary title report. Any additional mortgages must be addressed, paid-off and released at or prior to closing the loan. If any liens are to remain open, they must meet Lendz Financial's subordination guides.

- Liens and Judgments. Any liens (federal tax liens, mechanic's liens, etc.) or judgements must be paid-off at or prior to closing. Judgments that belong to another person or of a similar name may appear on the preliminary title report. In these instances, the applicant must sign an affidavit at closing, to satisfy the title company, which states they are not the person(s) named in the judgement(s). These judgments should not be on the final title policy. Solar liens are to be subordinated or paid off. HERO liens must be paid.

- Real estate taxes and assessments are liens against the property that take precedence over all other liens. If the property owner fails to pay their taxes or assessments, then the county or city can sell the taxes to obtain the monies owed to them. Even if a lender has interest in the property the taxes can be sold.

- If taxes on the subject property are due and payable within 30 days but the county or city will not accept payment yet, then an escrow account is required to be set up by the title company to avoid any exceptions on the final title policy.

- If a title company requires an escrow account when the due date is beyond 30 days (i.e., 45 days), then all parties must adhere to the title company's requirements.

- All borrowers must sign the title company's prepared escrow agreements at closing.

- Easements are rights that a person has on the property/land of another person. Examples of easements are public utility easements, mineral rights, beach rights and riparian rights. These will not affect our lien position and can remain as exceptions on the title policy.

- Encroachment is construction on the property of another, i.e., wall, fence, or a driveway. Encroachments listed on the preliminary title report can remain as an exception on the final title policy if the title company will insure against loss or damage caused by the enforced removal of the real property that is encroaching onto the easement. However, if the title company will not provide insurance, then the encroachment must be reviewed by Seller's underwriter to determine if this will materially affect the value of the property/improvements or our security interest.

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

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

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

6.10.1 Title Policy Requirements

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

Endorsements

Lendz Financial requires all applicable endorsements to be present in a Title Insurance Policy. Endorsements are available for title insurance policies only and they provide affirmative language and or protection to the lender for the specific exceptions being left on the title that typically occur due to property type. The following is a list of required endorsements:

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

Spousal Property Rights

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

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

Survey Requirements – Each loan will have

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

6.10.2 Hazard Insurance Requirements/Cond (HO6)

Hazard insurance must protect against the loss or damage of the property from fire and other hazards covered by the standard extended coverage endorsement. Lendz Financial requires hazard insurance protection on all loans. A declaration page is required prior to closing for all loans as proof of insurance.

On all refinance transactions, if the coverage termination date is within 30 days of the closing, Lendz Financial will require evidence of continuing coverage. A loss payable endorsement is required for all loan transactions.

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

- Policy
- Certificate of Insurance
- Insurance Binder

Disaster Policies

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

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

Deductibles

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

Evidence of Insurance:

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

- Property address matches the Note/Security Instrument
- For Primary Residence loans, Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance agent information
- Effective and expiration dates of coverage. For purchase loans, effective date must be on or before closing date.
- Premium amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by the agent

Amount of Coverage Required

Hazard Insurance coverage must comply with state, federal laws and should be in the amount of the lesser of:

- 100% of the insurable value of improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, if it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage of loss on a replacement cost basis. If the dwelling coverage amount covers the principal balance of the mortgage a replacement cost estimator is not required

Determining the amount of required Hazard Coverage:

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

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

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

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

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

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

6.10.3 Miscellaneous

Fraud Reviews:

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

OFAC and Watchlist Search:

Provide documentation to confirm borrowers, entities as borrower, sellers, realtors, settlement company/agent, appraiser and appraisal company were ran against these lists. For refinances, the borrowers, entities as borrower, settlement company/agent, appraiser and appraisal company should be included in the search.

Closing Documentation

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

Age of Documents:

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

Property Taxes:

The lender must document the real estate taxes used to determine the monthly housing expense used to calculate the debt-to-income (DTI) ratio. The amount must be based on the value of the land and the total of all assessed improvements. The most recent real estate tax bill, tax assessment or tax certificate from title are examples of acceptable documentation.

For new construction or full renovation property we need one of the following to document the proposed property taxes based on improvements:

- Documentation from title/settlement attorney detailing tax amount being used is based on current tax mileage and new build/improvements

- Printout of online county tax estimator using purchase price OR appraisal cost new estimate (if shown on appraisal)

- Copy of calculation worksheet using mileage rate+purchase price OR appraisal cost new estimate (if shown on appraisal)

NOTE: We cannot accept previous years tax bill that does not show current improvements i.e. land only assessed.

Prepayment Penalties:

Permitted on investment property loans only. Lendz Financial will not fund loans with prepayment penalties in the following states. All other loans with a prepayment penalty must be in compliance with applicable state law. For additional information, please see Appendix 8.4 Investor Prepayment Penalty Reference Guide.

- Alaska
- Illinois to individual borrowers. Permitted to legal entities when APR is =<8%
- Kansas
- Minnesota
- New Jersey to individual borrowers. Permitted to legal entities
- New Mexico
- North Dakota
- Ohio loan amounts <$107,633 (for 2023)
- Pennsylvania loan amounts =<$301,022 (for 2023)
- Washington ARM loans. Permitted on Fixed rate loans

Escrows:

- Escrows for taxes and insurance will be required for all HPMLs (High Price Mortgage Loans) that are primary residences.
- Escrows for taxes and insurance will be required on Debt Consolidation Refinances.
- Escrows are required for LTV's greater than 80%
- Flood Insurance must be escrowed.

Maximum Financed Properties:

- Lendz Financial's exposure may not exceed $5MM or 10 loans aggregate to any one borrower.
- A borrower may own up to 20 financed properties when the subject property is a primary or secondary home. This total includes the subject property.
- There is no limitation to the total number of financed properties a borrower may own when the subject property is an investment property.

7 Exceptions

Exceptions to Lendz Financial Guides can be made at the lender's discretion. The lender's Underwriter should review the loan file to ensure prudent underwriting was used as well as listing compensating factors for the loan exceptions.

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

8 Appendix

- Borrower Attestation Document
- Lendz Financial Funding Business Narrative for Bank Statement Program
- Condo Questionnaire (Limited Review)
- Condo Questionnaire (Full Review)
- Investor Prepayment Penalty Reference Guide

8.1 Borrower Ability to Repay Attestation

Disclosure Date	
Loan Number	
Lender	
Borrower Name(s)	
Property Address	

Before approval of your mortgage loan, we must ensure that we are making a loan that you can afford. To determine whether you could repay the mortgage loan, we will collect, verify, and analyze specific financial information regarding your current income, assets and debt obligations.

At a minimum, we will consider the following eight factors to determine your ability to repay:

- Your current income or assets
- Your current employment status Your credit history
- The monthly payment for the mortgage
- Your monthly payments on other mortgage loans you get at the same time on the same property
- Your monthly payments for other mortgage-related expenses (such as property taxes, homeowners insurance, etc.)
- Your other debts
- Your monthly debt payments, including the mortgage, compared to your monthly income ("debt-

to- income ratio”)

In addition, we will also assess how much money you have remaining each month after paying your debts. We recommend that you also consider these same factors when determining how much you can afford to repay based on your income, expenses, and savings priorities to stay within your budget.

By signing below, I/we certify the following about the information and documentation provided with my/our request for a mortgage loan, including information about the purpose of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities.

- All information and documentation provided is true and correct to the best of my knowledge; I have not made any omissions or misrepresentations.
- I am not aware of any omissions, misstatements of fact, or misrepresentations made by persons assisting me through the loan process; and
- I understand my obligation to amend and/or supplement the information provided if any of the facts that I have provided should change prior to closing of the mortgage loan.

Borrower Name	
Borrower Signature	
Date	

8.2 Lendz Financial Funding Business Narrative for Bank Statement Program

For all files, steps must be taken by the underwriter to evaluate the reasonableness of the expenses by the borrower.

This requires the borrower to provide a Business Narrative which includes details related to the size/scope of the business, including the below information.

Expenses listed on a borrower prepared P&L or Annual Earnings Summary should generally relate to the information provided below.

Description of Business/Business Profile:

Business Location(s) & Associated Rent or Mortgage Payment:

Number of Employees (Full & Part time)/Contractors:

Commercial or Retail Client Base?

Does business involve sales of goods or just services? If goods, please provide estimated cost of goods and types of goods sold.

Materials/Trucks/Equipment:

Business Analysis:

Borrower Signature: ____ Date: ________________________

8.3 CONDO QUESTIONNAIRE (LIMITED REVIEW)

Date:	Loan No:	Borrower(s) Name:
Project Name:		Phase Number:
Project Address:		Country:
City:	State:	Zip:
Subject Property Address/Unit #:		

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

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

Use this form when the following three conditions apply:

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

Number of total units in project: ____________ Unit is ___ Attached ___ Detached

	Yes	No	N/A	
1				If the subject unit is a detached unit, is the unit 100% complete?
2				Is the project a timeshare or condo hotel, or is it managed or operated as a hotel, motel, or vacation resort even thought the units are individually owned?
3				Are unit owners required to pay mandatory upfront and/or periodic membership fees for use of recreational amenities not ownered by the HOA (i.e. owned by an outside party including the developer/builder?
4				Are units in the project subject to private transfer fees other than those paid directly to the HOA or property manager? (Defined as transfer fee to be paid to an identified third party – such as the developer or its trustee – upon each resale of the property.)
5				If a unit is taken over in a foreclosure or a deed-in-lieu of foreclosure, is the lender liable for more than 6 months of delinquent HOA fees?
6				Is more than 25% of the toal square footage of the project used for nonresidential purposes (commercial space)?
7				Does the project consist of live-work units? Is it a live work project? If yes, is it mostly residential in character and are the unit owners operators of the business? ___ Yes ___ No
8				Are multi-dwelling units allowed (owner owns more than 1-unit secured by a single deed and single mortgage)
9				Is the project subject to zoning restrictions that would prohibit the project from being re-built to current density?
10				Does an single entity (individual, investor group, partnership, corporation, or government housing authority) own more than the following number of units in the project? (see below) If yes, check the appropriate project size and state how many they own: • Projects with 2-4 units: >1 units # owned? _________ • Projects with 5-20 units: >2 units # owned? _________ • Projects with 20+ units: >10% units # owned? _________
11				Is the Homeowners' Association currently involved in an litigcation other than as

				the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage foreclosures action against unit owners?

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

Date: ____________________

Contact Name/Title: ____

HOA/Company Name:_____________________________ HOA Tax ID: __________________________

Phone Number: __________________________ Fax Number: _________________________________

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

____

Signature

8.4 CONDO QUESTIONNAIRE (FULL)

See Fannie Mae Full Condo Questionnaire.

8.5 Investor Prepayment Penalty Referent Guide

State Specific Acquisition Guidance

Lendz Financial will not fund loans with prepayment penalties in the following states. All other loans with a prepayment penalty must be in compliance with applicable state law.

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

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

- Illinois permitted to legal entities when APR is =<8%. Prohibited to individual borrowers

- Maryland – Note must specifically include Choice of Law - Title 12, Subtitle 10 Credit Grantor provisions
- New Jersey permitted to legal entities. Prohibited to individual borrowers
- Ohio permitted on loan amounts >=$110,233(for 2024). Prohibited on loan amounts <$110,223
- Oregon – requires state specific verbiage to be disclosed on the loan agreement (i.e. Note, Note Addendum or prepayment penalty rider)
- Pennsylvania permitted on loan amounts >$312,159 (for 2024).

  o Loan amounts =<$312,159 permitted only on 3-4 residential units. Number of units will be validated prior to purchase.
- Washington permitted on fixed rate loans. Prohibited on ARM loans

Allowable Types of Prepayment Structure

Lendz Financial will accept the following 1-to-5 year prepayment types as permitted by applicable laws and regulations on closed-end 1-to-4 unit business purpose investment properties. The LLPA will be the same for either the 6 month interest, step down prepay structure, or flat prepayment structure. Prepayment penalty must be contracted for in an appropriate Note and Security Instrument Rider.

- 6 months interest on amount of prepayment above 20% of the original loan amount in any 12-month period.
- Step Down Prepay Structure- Step Down prepayment penalty charge % applies to curtailment or the entire outstanding loan amount during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.
  - 5 Year Prepayment Penalty- 5/4/3/2/1 %
  - 4 Year Prepayment Penalty- 4/3/2/1 %
  - 3 Year Prepayment Penalty- 3/2/1 %
  - 2 Year Prepayment Penalty- 2/1 %
  - 1 Year Prepayment Penalty- 2 %
- Flat Prepay Structure- Flat prepayment penalty charge no greater than 5% and no less than 2% flat prepayment over the life of the prepay penalty term (i.e. 5/5/5/5/5, 4/4/4/4, 3/3/3) charged to curtailment or the entire outstanding loan amount during the prepay period. The charge applies to loans that payoff due to sale or refinance during the prepay period.

State Specific Restrictions to Structure:

- Michigan – allows a Flat Prepay Structure for 3 years at 1/1/1 % of the amount of the prepayment.

- Mississippi – allows up to a maximum 5-year declining (step down) prepayment penalty structure.
- Ohio (loan amount >=$110,223) – allows a flat Prepayment Penalty up to 5 years and equal to 1% or less of the original principal amount.
- Rhode Island – allows a flat 1-year Prepayment Penalty equal to 2% of the balance due