Series 5 - Non-QM Underwriting Eligibility Guidelines

Effective 05.10.24

Contents

1 General Information

1.1 Fair Lending Policy

Lendz Financial strictly complies with all applicable federal, state, and local requirements related to fair lending, including the Equal Credit Opportunity Act and the Fair Housing Act (together, the "Fair Lending Requirements"). Accordingly, in connection with its decision to fund loans, Lendz Financial will not discriminate on any prohibited basis. Lendz Financial will also not knowingly fund loans from brokers engaged in practices that violate Fair Lending Requirements. To the extent a broker is found to be engaging in practices that may violate Fair Lending Requirements, Lendz Financial may terminate its contractual relationship with such broker or take any other action that it deems appropriate.

1.2 State and Federal High-Cost Loans

Lendz Financial does not fund loans that are subject to the Home Ownership and Equity Protection Act of 1994 (HOEPA), also known as "federal high cost" mortgages.

Further, with the exception of loans that comply with N.Y. Banking Law § 6-M (New York Subprime), Lendz Financial does not fund mortgage loans that meet the definition of "high cost," "high risk," "covered," "subprime," or any similar designation under state or local law.

1.3 Regulatory Compliance

Brokers and any of their loan officers will follow all federal, state, and local laws including without limitation, all statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions, that apply to any of their origination, or other business practices and related technology. The broker must comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth in lending, wrongful discrimination, appraisals, real estate settlement procedures, borrower privacy, data security, escrow account administration, mortgage insurance cancellation, debt collection, credit reporting, electronic signatures or transactions, predatory lending, anti-money laundering, terrorist activity, ability to repay, state community and marital property, or the enforcement of any of the terms of the mortgage. Each broker will establish appropriate facilities and processes for monitoring applicable legal developments and implementing appropriate measures to stay in compliance with applicable law and will be able to demonstrate satisfactory performance of its legal compliance upon Lendz Financial' request.

1.4 Ability to Repay

All loans subject to the general ATR underwriting standards (12 C.F.R 1026.43(c)) require a creditor to make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan prior to or at consummation. A reasonable, good-faith ATR evaluation must consider the following eight underwriting factors based on available information in the mortgage loan file using reliable third-party records:

- Income or assets used to repay the loan
- Employment status
- Monthly mortgage payment on the subject loan (fully indexed, fully amortizing)
- Monthly payments for any simultaneous loans secured by the subject property
- Monthly payments for property taxes, hazard insurance, HOA fees, or ground rents

- Debts (reported by a credit bureau or disclosed by the consumer), alimony, and child support obligations
- Monthly DTI or residual income
- Credit history

1.5 Home Mortgage Disclosure Act (HMDA)

The broker is required to comply with the Home Mortgage Disclosure Act (HMDA), including without limitation all data collection, recordkeeping, and reporting requirements in connection with the broker's credit decision on each loan file delivered to Lendz Financial.

1.6 Non-Qualified Mortgage (Non-QM)

The Non-QM programs offer loans with features beyond the criteria established for Qualified Mortgages. Features include alternative income documentation for self-employed borrowers, interest only, and loan qualification for investment properties using the subject property cash flow. Non-QM loans submitted to Lendz Financial must meet the criteria of the current published Eligibility Guide as of the Lendz Financial loan lock date for review.

2 Borrower Information

2.1 Residency

2.1.1 US Citizen

Eligible without guideline restrictions.

2.1.2 Permanent Resident Alien

An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States. The Green Card (Form I-551) is evidence of employment authorization.

Acceptable evidence of permanent residency include the following:

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

Eligible without guideline restrictions.

2.1.3 Non-Permanent Resident Alien

An individual admitted to the United States as a lawful temporary resident. Lawful non-permanent residents are legally accorded the privilege of residing temporarily in the United States. For Lendz programs, underwriters must validate the borrower has employment authorization. This may be documented with either an EAD or a VISA permitting employment.

Borrower Eligibility Requirements:

- Residing in U.S. for at least 2 years; and
- Must have been employed in the U.S. for at least 2 years as evidenced on the loan application; and
- Must have valid Social Security Number(s); and
- Must have established U.S. credit.

Employment Status Documentation is required for all borrowers, and may consist of one of the following:

- Employment Authorization Documents, provide one of the following:
  - Form I-766 Employment Authorization Document (EAD), (work permit/card) is required for US employment if the borrower is not sponsored by a current employer.
    - If the EAD will expire within six (6) months of loan application, it is acceptable to obtain a letter from the employer documenting the borrower's continued employment and continued EAD renewal. The employer on the loan application must be the same as on the unexpired EAD. The EAD documentation is acceptable for up to 540 days if an automatic extension has been granted.
  - Form I-765 Application for Employment Authorization, the form:
    - Must reflect approval status in the Action Block (upper right-hand corner of the form)
  - Form I-797, I-797A, I-797B, or I-797C conveying approval status
    - Petitioner to match employer name on application
- If EAD is not provided, a copy of the Visa permitting employment authorization needs to be included in the credit file.

RESTRICTIONS

- Cash out refinance is not allowed
- Maximum 80% CLTV for owner occupied property
- Maximum 75% LTV for DSCR

2.1.4 Foreign National

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

Foreign Nationals are eligible for DSCR loans only.

Citizens and individuals from OFAC sanctioned are not eligible under the Foreign National product or any other product.

FOREIGN RESIDENCY

A foreign national borrower must evidence their primary residence for the country issuing their Passport. Foreign National borrowers may not occupy the subject property as a primary residence.

- A complete loan application (Form 1003) is required on all loan files reflecting the borrowers address for their primary residence in their country of origin.
- The application must include the borrower's full legal name, phone number, address including flat, floor, unit or house number, street name, city, province/state along with a postal code.
- Borrower to provide a third-party document with an address that matches the primary residence on the application e.g., lease agreement, utility bill, financial statement.
- The Borrower Contact Consent Form is required.

AUTOMATIC PAYMENT AUTHORIZATION (ACH)

Automatic Payment Authorization (ACH) Form is required for all foreign national borrowers. Funds must be from a U.S. Bank. The executed (ACH) enrollment form must be included in the closed loan submission package. The (ACH) enrollment form must include the bank routing number, account number, and account type. Borrowers may select a date within the grace period stated on the Note.

FOREIGN NATIONAL PROGRAM SPECIFIC DOCUMENTATION REQUIREMENTS

- The following are required as evidence the borrower is in the U.S legally:
  - Copy of the borrowers valid and unexpired passport (including photograph)
- For DSCR transactions, if a non-U.S. citizen is borrowing with a U.S. citizen, foreign national documentation requirements do not apply.
- OFAC SDN screening: See Section Individuals for criteria.
- OFAC Sanctioned Countries: See Section Foreign Countries for criteria.
- Florida Purchases: Loans secured by property located in the state of Florida made to foreign principals, persons, and entities are to include one of the following Affidavits published by the Florida Land Title Association:
  - Conveyances to Foreign Entities – By Individual Buyer
  - Conveyances to Foreign Entities – By Entity Buyer
- All parties (borrowers and property sellers) involved on the transaction must be screened through exclusionary lists, and must be cleared through OFAC's SDN list. A search of Specially Designated Nationals & Blocked Persons list may be completed via the US Department of Treasury: http://sdnsearch.ofac.treas.gov/.
- Borrowers from OFAC sanctioned countries are ineligible http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx.
- Individuals with Diplomatic immunity are not eligible, immunity status is listed on the reverse side of the U.S. issued ID card or at: https://2009-2017.state.gov/s/cpr/rls/dpl//index.htm
- Documents signed by Borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. If the U.S. embassy or consular official is unavailable, a notary is acceptable if the country, where signing is taking place, is part of the Hague Convention and the signed documents are accompanied by an Apostille. See the following link to determine if the country is part of the Hague Convention:

https://travel.state.gov/content/travel/en/records-and-authentications/authenticate-your-document/apostille-requirements.html

Model Apostille forms can be found on the following link: https://www.hcch.net/en/instruments/specialised-sections/apostille

- Power of Attorney (POA) is not allowed.

QUALIFYING U.S. CREDIT FOR FOREIGN NATIONAL BORROWERS

- For foreign national borrowers with a valid Social Security number, a credit report should be obtained.
- Restrictions when qualifying with U.S. credit:
  - Minimum Credit Score: 680
  - Investment Properties Only

PRIMARY HOUSING OWNERSHIP – FOREIGN NATIONAL

A foreign national borrower must provide evidence of owning a primary in their country of origin.

HOUSING HISTORY – FOREIGN NATIONAL

A housing history for the borrower's primary residence is not required. Refinance transactions (including cash out) require the most recent 12-month housing history for the subject property.

FOREIGN NATIONAL INCOME

- Foreign National - DSCR Income Doc Type – See DSCR Section for specific criteria.

FOREIGN NATIONAL ASSETS

RESERVES

Foreign National borrowers must have 9 months of reserves. Reserves may remain in a foreign account.

ASSETS HELD IN FOREIGN ACCOUNTS

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. One of the following options may be utilized:

- Transferred to a U.S. domiciled account in the borrower's name prior to closing unless funds are held in a foreign bank with U.S. branches insured by the FDIC; or
- Verified funds for closing are wired directly to the closing agent. Wire transfer includes bank name, accountholder name, and account number. The bank used as source of wire transfer must match the bank holding the assets verified in the loan file.

Documenting Assets Held in Foreign Accounts:

- Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
- A copy of the most recent statement of that account.
- See the Asset Documentation section of this guide for eligible sources and types of assets.
- Reserves may remain in a foreign bank account.

GIFT FUNDS

Minimum 10% Borrower Contribution.

RESTRICTIONS

- Cash out refinance is not allowed
- Maximum 75% CLTV for DSCR
- May not be used for reserves
- May not be used for a first time investor

2.2 Non-Occupant Co-Borrowers

Non-occupant borrowers are credit applicants on a principal residence transaction who do not occupy the subject property.

When non-occupant income is used, a 5% LTV reduction from the program maximum is required.

The non-occupant borrower's income is limited to Standard Documentation only.

Borrower(s) and co-borrower(s) must complete and sign a Non-Occupant Co-Borrower Certification.

Occupying borrower(s) must have an individual DTI ratio of 60% or less. This excludes the income/debts of non-occupant borrower(s).

Cash out transactions not allowed.

The non-occupant co-borrower must be included on title of the subject property.

2.3 First-Time Home Buyers

An individual is considered a first-time home buyer when they are who (1) is purchasing the security property; (2) will reside in the security property as a principal residence; and (3) had no ownership interest (sole or joint) in a residential property during the five-year period preceding the application date of the security property. Note: An individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year time period.

The following requirements apply to first-time homebuyer transactions:

- Primary residence only.
- DTI may not exceed 45%.
- Minimum six (6) months of reserves.
- Interest-only is not allowed

2.4 First Time Investors (Applies to DSCR Only)

First-Time Investor is a borrower not meeting the Experienced Investor definition, but who currently owns a primary residence.

First Time Investors are eligible subject to the following restrictions:

- Minimum credit score: 660

- If reported, no mortgage late payments during the past thirty-six (36) months
- Minimum of 36-months seasoning from any credit event
- First time homebuyers not eligible
- Minimum of 12 months of reserves
- Gift funds not allowed

2.5 Experienced Investor (Applies to DSCR Only)

An experienced investor is an individual borrower/guarantor having a history of owning and managing non-owner occupied residential real estate for at least one (1) year in the last three (3) years.

Ownership of commercial income producing property may also be used as evidence of investor experience.

For files with more than one borrower, only one borrower must meet the definition.

Experience can be documented by one of the following:

- Complete the REO schedule on the 1003 loan application, or
- Provide a property profile report, or
- Other 3rd party documentation (ex. Fraud Report, Settlement Statement, Closing Disclosure)

2.6 Ineligible Borrowers

- Irrevocable Trust
- Non-permanent resident aliens with Asylum or Daca status
- Land Trust
- Blind Trust
- Borrowers with diplomatic immunity or otherwise excluded from US jurisdiction.
- Not-for-profit entity

Any material parties (company or individual) to the transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list, or any other exclusionary list.

2.7 Exposure – Borrower Limitations

Lendz Financial aggregate exposure to a single borrower and/or household shall not exceed $5,000,000 in current unpaid principal balance (UPB) or ten (10) loans.

3 Loan Purpose/Features

See attached loan matrices for full eligibility criteria.

QUALIFYING PAYMENT

The qualifying payment is based upon the principal and interest payment along with 1/12th of the annual real estate taxes, property insurance, any other insurance, and any association dues.

The qualifying payment is based on the amortization term. For interest-only loans, using standard or Alt documentation, this is the remaining term after expiration of the interest-only period.

Single asset DSCR loans secured by 1-4 unit properties can be qualified using the interest only payment (ITIA).

3.1 Purchase

Proceeds from the transaction are used to finance the acquisition of the subject property.

LTV/CLTV is based upon the lesser of the sales price or appraised value.

Assignment of contract or finder's fees reflected on the purchase contract are not eligible to be included in the sales contract price or associated with the LTV/CLTV calculation.

Ensure the transaction is compliant with the Higher Priced Mortgage Loan appraisal rule. See section of ("Property Flipping") for details.

The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following:

- The purchase contract cannot be expired
- Borrower or borrower's entity as the purchaser of the property
- Seller as the vested owner on title
- Correct sales price
- Amount of down payment
- Closing dates
- Concessions and seller contributions

3.2 Rate/Term Refinance

Proceeds from the transaction are used to:

- Pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
- Pay off any subordinate loan not used in the acquisition of the subject property, provided one of the following apply:
- Closed-end loan, at least 12 months of seasoning has occurred.
- HELOC, at least 12 months of seasoning has occurred, and total draws over the past 12 months are less than $2,000. (For business purpose transactions, any draw over the life of the loan may not have been used for personal use. Business purpose transactions will require a draw history schedule, along with an attestation from the borrower, in the credit file, that none of the advances were used for personal/consumer use).
- Buy out a co-owner pursuant to an agreement.
- Pay off an installment land contract executed more than 12 months from the loan application date.

Other considerations:

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

- If the subject property was acquired greater than three (3) months from application date, the appraised value will be used to determine LTV/CLTV. If the property was acquired less than or equal to three (3) months from the application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) will be used to determine LTV/CLTV. The purchase settlement statement and any invoices for materials/labor will be required.
- Refinance of a previous loan that provided cash out, as measured from the previous note date to the application date, and is seasoned less than 12 months, will be considered a cash out refinance.

3.3 Cash-Out Refinance

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

See Loan/LTV Matrices for maximum cash-out amounts and restrictions.

A mortgage secured by a property currently owned free and clear is considered cash-out.

The payoff of delinquent real estate taxes (60 days or more past due) is considered cash-out.

If the cash-out is for personal, family, or household use, the loan must also meet all applicable federal and state requirements of a consumer loan transaction even if the borrower is a company or the loan was initially intended for business purposes, including but not limited to the requirements of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5601 et seq.) and Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

Cash-out eligible to satisfy the reserve requirements.

Loans not eligible for cash-out:

- Primary Residence or Second Home properties listed for sale in the past six (6) months.
- Investment properties listed for sale in the past six (6) months, unless a three (3) year prepay penalty, per requirements in Section Prepayment Penalty are met.
- There has been a prior cash-out transaction within the past six (6) months
- Payoff of a Land Contract/Contract for Deed.
- Non-Owner-Occupied investment property transactions (Investor DSCR) when proceeds from the loan transaction are used for consumer purpose, i.e., payoff personal debt, personal tax lien(s), personal judgments, personal collection, or lines of credit secured by the subject property.

Cash-Out Seasoning is defined as the time difference between application date of the new loan and the property acquisition date.

A minimum borrower seasoning requirement of six (6) months is required for a transaction to be eligible for cash-out.

For properties owned six (6) months or longer, the LTV/CLV is based upon the appraised value.

Cash-out seasoning of six (6) months or less is allowed with the following restriction:

- The underwriter has documented that the borrower acquired the property through an inheritance, or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.

3.4 Delayed Financing

Delayed purchase financing is eligible when:

- The property was purchased by a borrower for cash within 90 days of the loan application.
- The original purchase transaction was an arms-length transaction.
- The source of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- The maximum LTV/CLTV ratio for the transaction is based upon the lower of the current appraised value or the property's purchase price plus documented improvements.
- The preliminary title search or report must confirm that there are no existing liens on the subject property

The transaction is considered cash-out; cash-out pricing adjustors apply.

The new loan amount can be no more than the actual documented amount of the borrower's initial investment subject to the maximum LTV/CLTV for cash-out transactions.

3.5 Recently Listed Properties

The following applies for all refinances:

Primary/Second Home:

- Properties previously listed for sale must be seasoned at least six (6) months from the listing contract expiration date to the loan application date.
- The value will be based on the lesser of the lowest list price or appraised value.
- Under six (6) months will be considered on a case-by-case basis.

Investment Properties:

- A listing expiration of less than six (6) months is permitted with a prepayment penalty. If a property is listed for sale, the listing must be cancelled prior to the note date.
- The value will be based on the lesser of the lowest list price or appraised value.
- Under six (6) months will be considered on a case-by-case basis.

3.6 Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales, and flip transactions.

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

A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required, as well as the payment history pattern (verification of the Seller's mortgage VOM).

ELIGIBLE NON-ARM'S LENGTH TRANSACTIONS

- Renter(s) purchasing from landlord.
  - 12 months of cancelled checks to prove timely payments are required.
  - A verification of rent (VOR) is not acceptable.
- Purchase between family members.
  - Gift of Equity requires a gift letter, and the equity gift credit is to be shown on the CD. Must provide a 12-month mortgage history on the existing mortgage securing the subject property, confirming the Family Sale is not a foreclosure bailout.

NON-ARM'S-LENGTH RESTRICTIONS

- Borrower to provide verification of earnest money deposit.
- Maximum LTV/CLTV of 80%.
- Employer to employee sales or transfers are not allowed (e.g., newly constructed properties).
- Property trades between buyer and Seller are not allowed.
- Commission earned by buyer/borrower cannot be used for down payment or monthly PITIA reserves.

3.7 Interested Party Contributions

Maximum contribution may not exceed 6%.

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

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. A borrower participating in the transaction (i.e., borrower acting as their own agent) may contribute funds (i.e., commission) up to the maximum contribution limits referenced above.

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

3.8 Escrows – Impound Accounts

Escrow funds/impound accounts are required to be established for all HPML loans purchased by Lendz Financial. Escrows may be established for funds collected by the seller, originator or servicer as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and other insurance) premiums, water/sewer taxes and ground rents.

Escrow funds/impound accounts can be waived, with the exception of Flood Insurance Premium, for non-HPML loans or exempt business purpose loans when the following requirements are met:

- LTV 80% or less.
- Minimum credit score of 700

3.9 Secondary Financing

Secondary financing must be institutional. Underwriters must employ reasonable underwriting policies and procedures designed to determine whether the borrower has applied for another credit transaction secured by the same dwelling. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation showing the line of credit is past its draw period.

3.10 Prepayment Penalties

Investment Properties Only

Where permitted by applicable laws and regulations on an investment property, a prepayment charge may be assessed in the period between one (1) and five (5) years following the execution date of the Note. The following prepayment structures may be used:

- Six (6) months of interest – The prepayment charge will be equal to six (6) months of interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12- month time period.
- A fixed percentage of no less than 3% - The prepayment charge will be equal to a fixed percentage and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.
- Declining structures that do not exceed 5% and do not drop below 3% in the first 3 years. For example: (5%/4%/3%/3%/3%) or (5%/4%/3%/2%/1%) – The prepayment charge will be equal to the percentage in effect and applied to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance.

See Matrix for state specific restrictions.

3.11 Solar Panels

Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- Borrower-owned panels,
- Leasing agreements,
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- Power purchase agreements

Property with solar panels are eligible. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal, insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing.

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan.

The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report.

The following sections summarize some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

Scenario 1 – Solar Panel(s) Affixed to Real Estate

If the solar panels are financed and collateralized – the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has been filed for the panels in the real estate records.

The lender must:

- Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing, related promissory note and related security agreement that reflects the terms of the secured loan;
- Include the debt obligation in the DTI ratio calculation;
- Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and
- Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing is of record in the land records.

Note: If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated.

Scenario 2 – Solar Panel(s) Not Affixed to Real Estate

Financed and collateralized – the solar panels are reported to be collateral for separate (non- mortgage) debt used to purchase the panels, but do not appear on the title report.

The lender must:

- Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, and any UCC financing statement, related promissory note or related security agreement);
- Include the debt obligation in the DTI ratio calculation;
- Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt;
- Not include the panels in the LTV ratio calculation; and
- Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement of any UCC financing statement treats the panels as personal property not affixed to the home.

Note: A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage. If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

LENDER REQUIREMENTS FOR PROPERTIES WITH SOLAR PANELS THAT ARE LEASED OR COVERED BY A POWER PURCHASE AGREEMENT

The lender must obtain and review copies of the lease or power purchase agreement.

The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:

- Provide delivery of a specific amount of energy at a fixed payment during a given period, and
- Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

The value of the solar panels cannot be included in the appraised value of the property

The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.

- A “precautionary” UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it.
- When the only property described in the UCC filing as collateral is the solar equipment

covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic.

The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.

The property must maintain access to an alternate source of electric power that meets community standards.

The lease or power purchase agreement must indicate that:

- Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);

- The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and

- In the event of foreclosure, the lender or assignee has the discretion to:
    - Terminate the lease/agreement and require the third-party owner to remove the equipment;
    - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
    - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

3.12 Private Mortgage Insurance (PMI)

Private Mortgage Insurance (PMI) is not required on any loan Non-QM loan funded by Lendz Financial.

4 Occupancy

4.1 Occupancy Types

Primary Residence – A primary residence is a property that the borrower occupies as his or her principal residence. May also be referred to as owner-occupied.

Second Home – A second home is a property occupied by the borrower for some portion of the year. The following criteria applies:

- Restricted to one-unit dwellings
- Must be suitable for year-round occupancy
- The borrower must have exclusive control over the property. Cannot be subject to any agreements giving control over occupancy to a management firm, rental pools, or timeshare arrangement.

Investment Property – An investment property is owned but not occupied by the borrower.

4.2 Borrower Statement of Occupancy

The borrower must acknowledge the intended occupancy of the subject property ("Primary Residence", "Second Home", or "Investment") by completing and signing the appropriate sections of the "Occupancy Certification" found in the Occupancy Certification of this guide.

4.3 Borrower Statement of Business Purpose

All non-owner-occupied transactions require the borrower to acknowledge the loan is a business purpose loan by completing and signing the appropriate sections of the Borrower Certification of Business Purpose form in this guide. Lendz Financial reserves the right to decline any loan that may indicate the property is not intended exclusively for investment purposes.

Common occupancy red flags include, but are not limited to:

- Subject property value significantly exceeds the value of the borrower's primary residence.
- The borrower is a first-time homebuyer and currently living rent free or renting his/her primary residence.
- Subject property could reasonably function as a second home.
- Borrower documents show subject property as current residence.

5 Credit

5.1 Credit Reports

A credit report is required for each individual borrower, including any member of an entity providing a personal guaranty. The credit report should provide merged credit data from the three major credit repositories: Experian, TransUnion, and Equifax. Either a three-bureau merged report, or a Residential Mortgage Credit Report is required.

The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreezes credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories.

5.1.1 Consumer Credit

5.1.1.1 Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installments must be included in the borrower's debt-to-income (DTI) ratio.

Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact on the borrower's ability to handle the new mortgage payment.

Installment debt paid in full or prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

5.1.1.2 Lease Payments

Lease payments must be considered as recurring monthly debt obligations and included in DTI ratio calculation. This is regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

5.1.1.3 Student Loans

If a monthly student loan payment is provided on the credit report, the underwriter may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the underwriter may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the underwriter must determine the qualifying monthly payment. For deferred loans or loans in forbearance, the Seller may calculate:

- a payment equal to 1% of the outstanding balance (even if this amount is lower than the actual fully amortizing payment), or
- a fully amortizing payment using the documented loan repayment terms.

5.1.1.4 Deferred Installment Debt

Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the underwriter must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

5.1.1.5 Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment, as stated on the credit report or current account statement, should be used to calculate the debt-to-income ratio. 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 ratio calculation. Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a minimum payment amount, the Seller must use 5% of the outstanding balance to be included in the DTI ratio calculation.

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

5.1.1.6 Open 30-Day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. Cash out funds can be used as reserves for open 30-day charge accounts.

5.1.1.7 Timeshares

Timeshare obligations will be treated as a consumer installment loan.

5.1.1.8 Business Debt

A business debt is a financial obligation of a business but may also be the responsibility of the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt, and it must be included in the debt-to-income ratio. When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds to exclude the debt.

Any of the following supporting documentation can be included in the credit file to exclude business debt:

- Most recent six (6) months of cancelled checks drawn against the business account
- Tax returns reflecting the business expense deduction
- Business bank account statement showing assets remaining after funds to close and reserve requirements are deducted, with a balance greater than or equal to the balance of the debt.

If the debt is less than six (6) months old, the payment must be included in the DTI ratio.

5.1.1.9 Debt Paid by Others

Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:

- Car loan
- Student loan
- Mortgage
- Any other obligation

If the underwriter obtains proof that the borrower is not the party who is repaying the debt, the underwriter may exclude the debt. In order to exclude debts from the borrower's DTI ratio, the underwriter must obtain the most recent 12 months' canceled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

5.1.1.10 Loans Secured by Financial Assets

When a borrower uses his or her financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has contingent liability. The underwriter is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the underwriter obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Payment on any debt secured by virtual currency is an exception to the above policy and must be included when calculating the debt-to-income ratio.

5.1.1.11 Charge-offs and Collections

The following accounts may remain open:

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

5.1.1.12 Consumer Credit Counseling Services

Borrower enrollment in Consumer Credit Counseling Services (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.

A monthly CCCS plan payment must be included in the DTI calculation.

5.1.1.13 Judgments or Liens

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

5.1.1.14 Income Tax Liens

All tax liens (federal, state, and local) must be paid off prior to or at loan closing unless the requirements listed below are met:

- The file must contain a copy of the approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due (Only one plan allowed).
- A minimum of two (2) payments have been made under the plan with all payments made on time and the account is current. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date.
- The maximum payment required under the plan is included in the DTI calculation.
- The balance of the lien, or repayment plan, must be included when determining the maximum CLTV for the program.
- Refinance transactions require a subordination agreement from the taxing authority for liens against the subject property.

5.1.1.15 Disputed Accounts

When the credit report contains tradelines disputed by the borrower, the credit file should be documented with a credit supplement showing the account(s) have been resolved. If the disputed account balance is $250 or less, the payment can be included in the total debt calculation and the account can remain in dispute. The total aggregate balance of accounts in dispute remaining unresolved can’t exceed $2,000.

5.2 Credit Scores

Loan eligibility is based upon the representative credit score, also referred to as the Decision Credit score. A valid Decision Credit score requires at least one (1) borrower to have a minimum of two (2) credit scores. To determine a borrower(s) credit score, use the lower of two (2) or middle of three (3) credit scores.

For a loan file with one borrower, that borrower's score is the decision credit score.

Use the lowest decision score amongst all borrowers who will be on the loan as the decision credit score.

5.3 Tradelines

The minimum tradeline requirements are as follows:

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

Borrowers who do not meet one of the above tradeline requirements, but have a minimum of two credit scores, can alternatively satisfy the tradeline requirement by meeting the requirements below:

- No fewer than eight (8) tradelines are reporting, one (1) of which must be a mortgage or a rental history.
- At least one (1) tradeline has been open and reporting for a minimum of twelve (12) months.
- The borrower has an established credit history of at least eight (8) years.
- Tradelines with recent serious adverse history are not acceptable.
- Student loans can be counted in credit depth as long as they are in repayment and not being deferred.

The following are not acceptable to be counted as tradelines:

- "non-traditional" credit as defined by Fannie Mae®
- collection accounts
- self-reported tradeline any liabilities in deferment status
- foreclosures
- deed-in-lieu of foreclosure
- accounts discharged through bankruptcy
- short sales
- authorized user accounts
- pre-foreclosure sales
- charge-offs

5.4 Housing History

A 12-month housing payment (mortgage or rental) history is required for all Lendz Financial programs. A borrower's combined mortgage or rental history is used for program eligibility.

5.4.1 Mortgage Verification

MORTGAGE(S) ON CREDIT REPORT

The lender must review the credit report to determine the payment status of all reported mortgage accounts for the previous 12 months. Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

If a complete 12-month mortgage history is not reported on the credit report, the lender must use one of the following to complete the borrower's payment history:

- Credit supplement; or
- Request for Verification of Mortgage Form completed by the creditor; or
- Loan payment history from the servicer; or
- Borrower's proof of payment (e.g., cancelled check, ACH payment, bank transfer, etc.)

MORTGAGE(S) NOT REPORTING ON CREDIT REPORT

The lender must document mortgage history not reporting on credit report with all the following:

- Request for Verification of Mortgage Form completed by the creditor:
  - On owner occupied and non-DSCR investment transactions a 12-month mortgage history is required for all properties.
  - On DSCR transactions a 12-month mortgage history is required for the borrower/guarantor's primary residence and subject property only (if refinance).
- Copy of Note with terms of the loan:
  - Notes with a balloon feature with an expired maturity date exceeding 30 days require an extension to avoid being counted as delinquent.
- If subject transaction is a refinance, mortgage payoff statement is required from the creditor:
  - A payoff statement that reflects late fees, deferred balance, or delinquent interest are subject to housing history and/or credit event criteria.

5.4.2 Rental Verification

A 12-month rental history is required for all Lendz Financial programs when the borrower is renting their current primary residence. The following documents are required:

- A third-party Verification of Rent (VOR) is required for any file when the borrower is currently renting.
- Verification of Rent must be verified by the loan processor and recorded as a processor certification;
  - Processor must attest that they contacted the individual that completed the VOR and verified the payment and rental information.

5.4.3 Living Rent Free

Borrowers who live rent-free or without a complete 12-month housing history are allowed, with the following restrictions:

- DTI may not exceed 43%
- Any available portion of a 12-month housing history must be paid as agreed.
- Borrower(s) who own their primary residence free and clear are not considered living rent-free.
- Borrower(s) who sold a primary residence within the past six (6) months and are currently residing rent-free until subject transaction closes are not considered living rent-free.
- DSCR transactions are eligible if the borrower meets the minimum experienced investor requirements listed in the experienced investor section.

5.4.4 Departure Residence

If the borrower's current principal residence is pending sale but the transaction will not close prior to the subject transaction, the current PITIA and proposed PITIA must be used in qualifying the borrower. The current PITIA may be excluded provided the credit file is documented with the following:

- The executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared.

If the borrower plans to convert their departure residence to a rental property, the current PITIA and proposed PITIA must be used in qualifying the borrower.

- The current PITIA may be offset using 75% of the lower of actual or market rent.

The rental income must be documented with all the following:

- Market Rent Analysis, Single Family Comparable Rent Schedule (Fannie Mae® Form 1007)
- Copy of a current lease
- Evidence of proof of receipt of damage deposit and first month's rent.

5.5 Credit Events

5.5.1 Bankruptcy

Recent bankruptcies are allowed, all bankruptcies must be settled at the time of application.

Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date.

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

See Matrix for specific details.

No multiple credit/housing events (FC, BK, SS/DIL) allowed.

5.5.2 Foreclosure

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

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

No multiple credit/housing events (FC, NOD, BK, SS/DIL) allowed.

5.5.3 Short Sale / Deed-In-Lieu

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

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

No multiple credit/housing events (FC, BK, SS/DIL) allowed.

5.5.4 Forbearance, Modification, or Deferrals

Forbearances, modifications, and deferrals are considered under housing payment history as outlined below:

Greater than 12 Months from Note Date:

- Forbearance, loan modifications, or deferrals (including COVID-19 related events) completed or reinstated greater than 12 months from the Note date of the subject transaction and having a 0x30x12 Housing History are allowed under all programs including Platinum.

Within 12 Months of Note Date:

- Forbearance, loan modifications, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction will be treated as a 0x90x12 under Gold Housing History for eligibility and pricing.
- Forbearance, loan modifications, or deferrals (including COVID-19 related events) completed or reinstated within 12 months of the Note date of the subject transaction are not eligible under Platinum & DSCR
- Refer to DSCR – DSCR and Foreign National Investment matrix for applicable Housing History and Credit Event Seasoning restrictions related to these programs.

5.6 Obligations Not Appearing on Credit Report

HOUSING AND MORTGAGE-RELATED OBLIGATIONS

Housing and mortgage-related obligations include property taxes, insurance premiums, and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard on the Schedule of Real Estate Owned (REO) section of the Form 1003 loan application. These obligations must be verified (subject to the program criteria) using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, or information obtained from a valid and legally executed contract.

CURRENT DEBT OBLIGATIONS, ALIMONY, AND CHILD SUPPORT

Underwriter may use a credit report to verify a borrower's current debt obligations, unless the Underwriter has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae® guidelines.

When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement - and those payments must continue to be made for more than 10 months - the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. For alimony obligations, the underwriter has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the underwriter exercises this option, a copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

5.7 Gap Credit Reporting (Soft Pull)

A gap credit or Undisclosed Debt Monitoring report is required no more than 10 days prior to loan closing or any time after closing. Any new debt must be included in determining the DTI ratio.

Business purpose DSCR transactions are excluded from this requirement.

5.8 Credit Inquiries

Creditor must obtain verification from borrower in the form of a signed statement attesting that their current obligations are accurate. Additionally, any credit inquiries listed on the report within 90 days of the report date must be explained, DSCR transaction excluded. If new credit was extended, borrowers must provide documentation on the current balance and payment. If no credit was extended, borrower must state the purpose of the inquiry. Underwriters must inform borrowers that they are obligated to inform the underwriter of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan.

5.9 Fraud Report

Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All parties to the transaction (Borrowers/Guarantors, Sellers, Brokers, Loan Officers, and Real Estate Agents) must be included in the fraud report performed by an automated fraud and data check vendor solution A copy of the findings report from the vendor must be provided in the loan file with all “high” alerts, or “red flags” addressed and/or cleared.

Underwriting may clear “high” alerts or “red flags” directly through the vendor solution or with an attestation. The attestation must address each “high” alert, or “red flag” noted in the fraud report. Lendz Financial may request additional documentation to address the high fraud risk.

6 Income

The following applies to all income documentation options unless otherwise stated in the specific section of the guidelines.

6.1. Employment/Income Verification

A minimum of two (2) year employment history is required to be documented on the loan application (1003). When the borrower has less than a two-year history of employment, the underwriter should document positive factors to offset the shorter employment history, such as education or training.

Any gaps in employment that span one or more months must be explained.

Salary/Wage Earner – income derived from employment at a business. Compensation may be based upon a salary, hourly wage, bonus, commission, or overtime.

Any borrower with a 25% or greater ownership interest in a business/entity or is paid using IRS form 1099 is considered self-employed.

The following are common business structures:

- Sole proprietorship
- Limit Liability Company (LLC)
- Partnerships

- S-Corporation
- Corporation

If any borrower is no longer employed in the position disclosed on the URLA at the closing date, Lendz Financial will not fund the loan.

6.1.1 Earning Trends

When 24 months of income are analyzed for qualification, year over year income amounts must be compared using the borrower's W-2 forms, signed federal income tax returns, or bank statements. The earnings trends are addressed as follows:

- **Stable or increasing**: Defined as annual income that is equal to, greater than, or less than 20% below the prior year's income. The income amounts will be averaged.
- **Declining but stable:** If the 24-month earnings trend shows a decline in borrower income of 20% or more on a year over year basis, but the most recent 12-month earning has stabilized and there is no reason to believe the borrower's employment will change, the most recent 12-month average of income will be used.

6.2 Debt-to-Income Ratio (DTI)

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to Lendz Financial guidelines and the inclusion of all income and liability expenses. See the most recent program matrix for applicable details.

The DTI ratio consists of two components:

- Total monthly debt obligations, which includes the qualifying payment for the subject property mortgage loan and other long-term and significant short-term monthly debts.
- Total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage.

The subject property mortgage loan is defined as the borrower's housing payment and includes PITIA and/or principal and interest on any subordinate lien financing.

The property taxes, Homeowner's Insurance (HOI), Flood Insurance, and HOA dues of a primary residence that is owned free and clear will be considered in the borrower's housing history determination and must remain current throughout the transaction.

The maximum DTI ratio for all income documentation types is 50%. A DTI of up to 55% is allowed in some cases for a primary residence, with 24-months of income documentation, and with a minimum residual income of $3,500. See the Product Matrices for specific program restrictions.

6.3 Standard Doc

The Standard Income Documentation option is available to borrowers who meet the requirements listed below. This documentation option is available to borrowers who have experienced recent credit events and allows for higher LTVs for borrowers with clean payment histories.

RESTRICTIONS

- See the Lendz Financial Matrices for maximum LTV/CLTV and DTI.
- A minimum two (2) year history of receipt of wage/salary or self-employment income is required.

STANDARD INCOME DOCUMENTATION (24 OR 12 MONTHS)

- Eligibility and pricing differences exist for the 24 or 12-month documentation options, see Loan/LTV Matrices and rate sheets for details.

6.3.1 Earnings IRS Form 4506-C

A signed copy of IRS Form 4506-C is required in every standard documentation credit file. See specific income documentation type if transcripts are required.

If the transcript request is returned with a code 10, or the borrower is a victim of taxpayer identification theft, the following must be provided to validate income:

- A copy of the IRS rejection with a code of "Unable to Process" or "Limitation"
- Proof of identification theft, as evidenced by one (1) of the following:
  - Proof that the identification theft was reported to and received by the IRS (IRS Form 14039).
  - A copy of the notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, if applicable, a Tax Transcript showing fraudulent information.
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's personal tax return (Form 1040). Validation of prior tax year's income (The income for the current year must be in line with prior years).

6.3.2 Taxpayer First Act

The Taxpayer First Act includes a provision that persons receiving tax return information must obtain the express permission of taxpayers prior to disclosing that tax return information to any other person. "Tax return information" is defined under the IRS Code, 26 U.S.C. § 6103.

Therefore, if a underwriter obtains tax return information during the origination or servicing of a mortgage loan, the underwriter must obtain express consent from the taxpayer to be able to share the tax information with another party. Such sharing would extend to actual or potential owners of the loan, such as Lendz Financial   or any other loan participant.

To ensure compliance with the law, the Taxpayer Consent Form has been created. To comply, the underwriter must include either the Lendz Financial version or their own version of the document in all loan files that include tax returns.

6.3.3 Wage Earners

The borrower's most recent paystubs reflecting 30 days of pay and YTD earnings, along with IRS W-2 forms or W-2 transcripts covering the most recent one (1) or two (2) years depending upon documentation option selected; or

Employment documentation provided by a 3rd party – (The Work Number®)

When tax returns are required, as in the case of investment property ownership, the most recent one (1) or two (2) years of tax returns should be provided. The definition of "most recent" is the last return scheduled to have been filed with the IRS. Any borrower who applied for a tax return extension must provide a copy of the extension in the credit file along with the prior one (1) or two (2) years of tax returns based upon the documentation method selected.

6.3.4 Self-Employed

Tax transcripts for the most recent one (1) or two (2) years. In certain cases, tax returns will be required as transcripts will not provide the detail required to establish eligible qualifying income for the borrower.

Or

The most recent one (1) or two (2) years of tax returns (including evidence of filing). If applicable, both personal and business (including all K-1s and schedules), signed and dated by each borrower.

Evidence of filing may include one of the following:

- IRS Form 8879 e-File Signature Authorization for the provider that prepared the return, or
- E-mail provided from the software used to prepare the return showing successful submission of the return to the IRS.
- If evidence of filing is not provided, tax transcripts for personal and corporate (IRS Form 1120) returns are required.

If the borrower pays themselves wage income, a YTD paystub must be included in the file.

When analyzing tax returns, the following may be added back to the applicant's income calculation:

- Depreciation
- Depletion
- Business use of home
- Amortization/casualty loss
- Ordinary income (loss) from other partnerships
- Nonrecurring other (income) loss
- Any expense(s) that can reasonably be documented to be one-time and non-recurring
- Net operating loss carryforwards from years prior to the tax returns provided

If the tax return date exceeds 90 days from the note date, a YTD Profit and Loss Statement (P&L), signed and dated by the borrower, up to and including the most recent month preceding the loan application date and two (2) business checking account statements for the two (2) most recent months reflected on the P&L. The P&L may be either: prepared by a 3rd party or prepared by the borrower. If a gap exists between the tax return ending date and the start date of the YTD P&L, a gap-year P&L is also required. The qualifying income is determined from the tax returns; the P&L is used to determine the stability of that income. The bank statements for the two (2) most recent months must reflect deposits that support the sales from the P&L and the qualifying income from the prior year(s) tax returns.

6.3.5 Employment Status

In all cases, the borrower's current employment status is required. Employment status can be established as follows:

Wage/salary borrowers:

A YTD paystub dated within 30 days of Note date, or

A verbal VOE dated no more than 10 calendar days prior to Note date. Underwriters may use any type of verification form. The VOE should include the following data:

- Borrower name
- Loan ID number
- Current position
- Verification that borrower's employment is currently active
- Employer name/company name
- Employer contact name and title
- Name of individual who completed the VOE
- Business phone numbers must be independently verified, OR verification via e-mail exchange with the borrower's current employer dated no more than 10 calendar days prior to Note date. Due diligence must be conducted to confirm the e-mail address for the employer is accurate. The VOE should include the following data:
- Work e-mail address of the individual contacted at the employer
- Borrower name
- Current position
- Current employment status

Self-Employed Borrowers:

- If the most recent tax return in the file is dated within 90 days of the note date, no additional verification required.
- If the tax return exceeds 90 days of the note date, a YTD Profit & Loss Statement (P&L) dated within 90 days of note date, along with the two most recent months of bank statements.

6.3.6 Other Sources of Income

6.3.6.1 Alimony or Child Support

Alimony or child support income is allowed with third-party documentation evidencing receipt of at least six (6) months. Document the support will continue for at least three (3) years by one of the following:

- Copy of final divorce decree or final separation agreement describing the payment terms.
- Any other type of written legal agreement or court decree describing the payment terms.

6.3.6.2 Auto Allowance

The borrower must have received payments for at least two (2) years. Add the full amount of the allowance to monthly income and the full amount of the lease or financing expenditure to the monthly debt obligations.

6.3.6.3 Capital Gains

Capital Gains income must be averaged over two (2) years and documented with the following:

- Most recent two (2) years of personal tax returns, including an IRS Form 1040, Schedule D.
- Third-party documentation to evidence that additional assets may be sold to support the qualifying income.
- The third-party documentation must evidence the capital gain income will continue for a minimum of three (3) years.

Capital losses do not have to be considered.

6.3.6.4 Disability Income – Long Term

Generally, long-term disability will not have a defined expiration date and should be expected to continue. Obtain a copy of the borrower's disability policy or benefits statement to verify the following:

- Eligibility for the benefits,
- Amount and frequency of payments, current proof of receipt,
- And if there is a contractually established termination or modification date.

6.3.6.5 Employed by a Relative

Income for borrowers who are employed by a relative must be verified using Standard Documentation for two (2) years, including the following:

- Federal income tax returns for the most recent two (2) years
- W-2s for the most recent two (2) years
- Paystub(s) covering the most recent 30-day period.

Clarification of the potential ownership of family-owned businesses by the borrowers may also be required. A borrower may be an officer of a family-operated business, but not an owner. Verification of a borrower's status should be provided by written confirmation obtained from a CPA or legal counsel.

6.3.6.6 Employment Offers or Contracts

For borrower(s) starting new employment, the loan file must contain a copy of an executed offer or contract plus the first paystub. The first paystub must be dated prior to the Note date.

6.3.6.7 Foreign Income

Foreign income is income earned by a borrower (US Citizen or Perm Resident Alien) who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if they provide copies of the following:

- Signed federal income tax returns or transcripts for the most recent two (2) years that include foreign income.
- Standard documentation requirements based upon the source and type of income.
- Any documents not in English or US currency must be translated.

6.3.6.8 Foster Care Income

Income received from a state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met:

- Verify the foster-care income with letters of verification from the organizations providing the income.
- Documentation verifying that the borrower has received foster care income for a minimum one-year period.
- Qualifying income is based upon the current amount received.

6.3.6.9 Housing/Parsonage Income

Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 24 months and the allowance is likely to continue for the next three (3) years. The following documentation is required:

- The two (2) most recent years of tax returns are required.
- Written documentation, such as a Written Verification of Employment (WVOE) provided by the church, must be obtained.
- The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's IRS Form 1040 should include the housing allowance paid.

The housing allowance may be added to income but may not be used to offset the monthly housing payment.

6.3.6.10 Interest/Dividends

Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the Age of Document Requirements section.

- Document a two-year history of the income, as verified by copies of the borrower's federal income tax returns.
- Develop an average of the income received for the most recent two (2) years.
- Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

6.3.6.11 Non-Taxable Income

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the underwriter may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

6.3.6.12 Notes Receivable Income

Note receivable income may be used for qualifying income subject to the following:

- Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application.
- Obtain a copy of the Note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months using either cancelled

checks, bank statements, or federal tax returns.

- Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

6.3.6.13 Pension, Retirement, Annuity

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the date of the mortgage Note. In addition, the borrower must have unrestricted access to the accounts without penalty. Document regular and continued receipt of the income with the following:

- Pension/Social Security/VA
    - Award letter(s) from the organizations providing the income,
    - Two prior years 1099-R will be acceptable in lieu of award letter,
    - 30-days current proof of receipt
- 401K/Keogh/IRA
    - Account Statement(s) reflecting available balance for withdrawals.
    - Two prior years 1099-R forms,
    - One month's proof of current receipt.
    - Income will be averaged based upon withdrawals over the past 12 months.

6.3.6.14 Rental Income

Rental income may be used for qualifying income subject to the following documentation requirements:

- Rental income from other properties must be documented with the borrower's most recent signed federal income tax return that includes Schedule E. Leases are required for properties where rental income is being used to qualify and the property was acquired during or subsequent to the most recent tax filing year or the rental property was out of service for an extended period. For commercial properties a copy of the lease or rent roll is required
- Proposed rental income from the comparable rent schedule, reflecting long term rental rates, may be used for qualifying if there is not a current lease or assignment of lease on purchase of an investment property
- Properties with expired leases that have converted to month to month per the terms of the lease will require bank statements for the lesser of 2 months or the time period after the lease expired
- A 25% vacancy factor must be applied to the gross rent used for qualifying. Multiply the gross rent by 75% and subtract the PITIA to arrive at the rental income/loss used for qualifying
- Commercial properties owned on schedule E must be documented with a rent roll and evidence that the primary use and zoning of the property is commercial
- Application of Rental Income:
    - Primary Residence
        - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of

the property.)

        - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

    - Investment Property

        - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income.
        - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.
        - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
        - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

6.3.6.15 Restricted Stock Units

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and are considered ordinal income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion. Restricted stock options may be used as qualifying income when all the following requirements are met:

- Income has been consistently received for the prior two (2) years and is verified it will continue for three (3) years.
- RSU income is calculated using the past two (2) year average.
- If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- Borrowers must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- The most recent vesting schedule or issuance agreement shows continuance of RSU income.
- Evidence of the payouts of RSUs for the past two (2) years. Acceptable verification includes any of the following:
    - Tax returns for the last two (2) years, reflecting RSU income.
    - Year-end paystubs reflecting the RSU payout.
    - An employer-provided statement paired with a brokerage or bank statement, showing the transfer of shares or funds, that includes the (a) date of the payout and (b) the number of

vested shares and their cash equivalent distributed to the borrower.

6.3.6.16 Royalty Income

Obtain copies of the following:

- Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income.
- The borrower's most recent signed federal income tax return, including IRS Form 1040 and Schedule E.

Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage Note.

6.3.6.17 Teacher Income

Teachers are paid on a 9-month, 10-month, or 12-month basis. The pay structure should be determined before calculating the monthly income. If unable to determine the pay frequency, documentation such as a copy of their contract or documents from the school district's personnel office may be required.

6.3.6.18 Tip Income

Tips and gratuity income may be considered if the receipt of such income is typical for the borrower's occupation (i.e., waitperson, taxi driver, etc.). Tip income should be received for at least two (2) years.

Documentation will be based upon the documentation type selected (12 or 24 months). Obtain one (1) or two (2) years of federal income tax returns along with a year-to-date paystub. Income should be averaged over the time period verified. If the tip income is not reported on the paystubs or tax returns, then it may not be included in qualifying income.

6.3.6.19 Trust Income

Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments:

- A trustee statement evidencing borrower is a beneficiary and income will continue for three (3) years.
- If the borrower creates the trust as trustee, the assets within the trust must be verified with 3rd party documentation (i.e., bank statements). Income will be calculated using asset utilization methodology.
- Unless this income is received monthly, documentation of current receipt of the income is not required if the income is on the borrower's most recent tax return.

6.3.6.20 Unemployment Benefit Income

Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather affects the ability to work, and where unemployment compensation is often received (i.e., construction). The income can be used to qualify with a two-year employment history in the same field of work and a two-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

6.3.6.21 VA Benefits

Document the borrower's receipt of Veteran Administration (VA) benefits with a letter or distribution form from the VA, along with a one-month proof of receipt. Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage Note. (Verification is not required for VA retirement or long-term disability benefits.) Education benefits are not acceptable income because they are offset by education expenses.

6.3.6.22 Variable – Overtime/Bonus/Commission

Variable income sources are eligible provided the borrower has a minimum 2-year history of receiving such income in the same line of work. Variable income earned for less than one (1) year may not be used for qualifying income.

Variable earnings must be averaged over the most recent one (1) or two (2) years based upon the documentation type, and include the following:

- Most recent year-to-date pay stub reflecting the variable earnings;
- W-2 forms covering the most recent 1-year or 2-year period;
- A completed Written Verification of Employment – Fannie Mae® Form 1005 detailing base, overtime, commission, or bonus earnings.

6.3.6.23 Ineligible Income Sources

- Boarder Income
- Educational Benefits
- Gambling Winnings
- Mortgage Credit Certificates
- Mortgage Differential Payments
- Refunds of federal, state, or local taxes
- Cannabis:
  - Self-employed income (active or passive) derived from a company involved in cultivation, transportation, retailing, etc. is not allowed regardless of percentage of company ownership.
  - Income from borrowers who are wage earners in the industry is not allowed.

6.4 12/24 Month Bank Statement Income

Personal bank statements or business bank statements may be used to document self-employment income.

Bank statements may be obtained from the borrower, or the underwriter can use a third-party asset vendor participating in the Fannie Mae Day 1 Certainty® process.

The Lendz Financial Business Bank Statement calculator is available on the www.lendzfinancial.com website.

See the Lendz Financial Matrices for maximum LTV and DTI.

Borrowers must be self-employed for at least two (2) years. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history.

The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:

- CPA, EA, PTIN, or CTEC Letter, or
- Business License, or
- Bank statement from 24 or more months prior to note date reflecting activity, or
- Other reasonable evidence of business activity.

Nonprofit Entity not eligible

Funds/Deposits in a IOLTA (Trust) ineligible source

Tax returns and 4506-C are not required for the bank statement program.

Bank Statement income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with Bank Statements, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

In addition to the factors described in the Income Analysis section of this guide, underwriters should consider the following:

- Deposits should be reviewed for consistency.
- Deposits from alternative payment processing applications (i.e., Square, Venmo) are eligible.
- Inconsistent or large deposits should be sourced or excluded from the analysis. The definition of an inconsistent or large deposit is any deposit exceeding 50% of the average monthly deposits.
- Changes in deposit pattern must be explained.
- Income documented separately, but included as deposits in the statement under review, must be backed out of deposits.

6.4.1 Personal Bank Statements

A personal bank account is held in the individual borrower(s) name. The following documentation requirements and analysis methods apply:

Documentation Requirements

24 or 12 months of consecutive PERSONAL bank statements, the most recent statement dated within 90-days of the note date.

Most recent two (2) months of BUSINESS bank statements. (If no business bank statements are provided the PERSONAL statements will be treated as BUSINESS statements – subject to expense ratio etc. as covered in the business and co-mingled bank statement review section.

Verify that the borrower owns 25% of the business by providing one of the following:

CPA, EA, PTIN, or CTEC letter, Tax Preparer letter, operating agreement, or equivalent, reflecting the borrower’s ownership percentage.

Calculation Method

When business bank statements are provided only transfers or deposits from the business account(s) are eligible deposits. Qualifying income calculated using the sum of the total eligible deposits from the statements reviewed divided by the number of statements. The most recent bank statement must be consistent with the qualifying income.

If the personal account is jointly owned, and the joint owner is not an owner of the business, deposits that are not readily identifiable as transfers from the business accounts or business deposits must be excluded unless sourced.

ATM deposits may be included if a consistent pattern of such deposits is present. Two (2) months of business bank statements, which must:

- Evidence activity to support business operations.
- Reflect transfers to the personal account.

6.4.2 Business Bank/Co-Mingled Statements

A standard 50% expense factor will be applied to the total of eligible deposits from the co- mingled and business bank statements to determine qualifying income.

If the business operates more efficiently or typically has a materially different expense factor (higher or lower than standard expense factor), then an expense factor from a CPA/CTEC/EA letter or P&L may be used to determine qualifying income.

A co-mingled bank account is a personal account used by a borrower for both business and personal use. A separate business account is not required.

- The borrower must be the sole owner of the business (borrower and spouse with combined 100% ownership eligible).

A business bank account is used for ongoing operations of the business and reflects the name of the business as completed on the URLA.

Verify that the borrower has ownership of at least 25% of the business by providing one of the following:

- CPA letter, Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.

All other owners of the business not party to the loan must provide a signed and dated letter acknowledging the borrower's access to the business account for loan qualification.

Net income from the analysis of the bank statements is multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

6.4.2.1 Calculation and Documentation

Option 1: Standard Expense Ratio – (50%)

Documentation Requirements:

24 or 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date.

Income Calculation Method:

Total deposits from all bank statements, less any inconsistent deposit(s), multiplied by 50%, multiplied by ownership percentage, divided by the number of bank statements reviewed.

Deposits x (.50) x (ownership %) / 24 or 12 = qualifying income

Example: $360,000 x .50 = $180,000 x 1.00 = $180,000 / 12 = $15,000

Option 2: Business Expense Statement Letter

Max LTV 80% Purchase/Rate & Term

Max LTV 75% Cash-out refinance

<u>Documentation Requirements:</u>

24 or 12 months of consecutive business bank statements, the most recent statement dated within 90-days of the note date and;

An expense statement letter specifying business expenses as a percent of the gross annual sales/revenue, prepared or reviewed and acknowledged by a CPA/accountant, IRS Enrolled Agent, PTIN or licensed tax preparer.

3rd party must have filed most recent business tax returns.

Tax Professional must verify the borrower’s ownership percentage

<u>Income Calculation Method:</u>

Total expenses are calculated by multiplying the total deposits by the expense factor provided (subject to a minimum total expense percentage of 10%) multiplied by ownership percentage, divided by the number of bank statements.

Deposits x (expense ratio) x (ownership %) / 24 or 12 = qualifying income.

Example: $360,000 x .75 = $270,000 x .50 = $135,000 / 12 = $11,250

6.4.2.2 Non-Sufficient Funds (NSF)

- Excessive NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility
- Exception requests for tolerance deviations must include (a) a letter of explanation from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified, and (b) additional compensating factors outlined by the underwriter supporting the viability of income.
- The underwriter must consider the financial strength of a self-employed borrower’s business.

6.5 12/24 Month Profit and Loss (P&L) Statement Only

See the Lendz Financial Matrices for maximum LTV and DTI.

Borrowers must be self-employed for at least two (2) years. The employment section of the URLA must be completed with a minimum of two (2) years self-employment history.

The business being used to source income must be in existence for a minimum of two (2) years as evidenced by one of the following:

- CPA, EA, PTIN, or CTEC letter, or
- Business License, or
- Bank statement from 24 or more months prior to note date reflecting activity, or

- Other reasonable evidence of business activity.

Nonprofit Entity not eligible

Funds/Deposits in a IOLTA (Trust) ineligible source

Tax returns and 4506-C are not required for the bank statement program.

P&L income may be combined with other income sources that are documented as Standard Doc but not associated with self-employment, such as wage income from spouse or domestic partner. When wage income is combined with P&L income, a tax return is not required for the standard full income documentation. If the 4506-C form is provided, Box 8 should be checked to obtain a transcript of W-2 earnings.

Documentation Requirements

Profit & Loss statement prepared by a Certified Public Accountant (CPA), an IRS Enrolled Agent (EA), PTIN or a CTEC registered tax preparer. The credit file must contain documentation showing the CPA is currently licensed in their state, the EA is currently active (Screen shot of the IRS web site), or the CTEC is active (Screen shot from CTEC web site).

- 24 or 12-Month CPA, EA, PTIN or CTEC compiled P&L Statement
- Minimum 25% business ownership is required
- 24 or 12-month (P&L) prepared/compiled and signed by a CPA (proof of CPA current state license required, or EA (proof EA currently active on IRS web site), PTIN (proof PTIN currently active on IRS web site) CTEC (proof CTEC currently active on CTEC web site) dated within 30-days of the loan application, representing total business sales and expenses for the time period covered, and
- The preparer must attest they have prepared the borrower's most recent tax return and provide the borrower's ownership percentage
- Qualifying income is the net income from the P&L divided by the time period covered (24 or 12-months) multiplied by the borrower's ownership percentage.
- Expenses on the P&L must be reasonable for the industry, Lendz Financial reserves the right to require additional information.
- When analyzing the P&L Statement, the following may be added back to the applicant's income calculation:
- Depreciation
- Depletion
- Amortization/casualty loss

6.6 1099 Only

Permitted for individual(s) earning 100% commission or for independent contractors. 1-year or 2-years of IRS Form 1099 and 1099 transcript(s).

One of the following Business expense analysis methods:

- 90% Net Margin (10% Expense Factor), or
- 3rd Party prepared P&L (CPA, EA, PTIN, accountant, tax preparer) – 10% expense floor.

A minimum 2-year self-employment history is required (e.g., 1099 income). as documented from the Employment section of the loan application.

Qualifying income is the 12 or 24 monthly averages from the total number of 1099's minus the expense factor from the method chosen above

YTD earnings must be documented when the 1099 reporting period is greater than 90 days from the note date. YTD earnings must support the ongoing receipt of income shown on the 1099s by:

- Checks or a single check stub(s) with YTD totals if available, or
- Bank statements (YTD).
    - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% or greater than prior year earnings.

The P&L Loan/LTV matrix should be utilized, see the Product Matrices.

6.7 WVOE Only

A written Verification of Employment may be utilized when documenting wages/salary income. The following criteria applies:

- Two-year history with same employer is required.
- Completed Fannie Mae® Form 1005
- Minimum credit score:
    - Platinum – 660
    - Gold – 660
- Primary Residence and second home Only
- 24-month 0x30 housing history required.
- Paystubs, Tax Returns, 4506-C, or W-2's not required.
- Eligible for Platinum and Gold only - see Loan/LTV matrix for restrictions.
- Must be completed by Human Resource, Payroll Department or Officer of the Company.
- Two (2) Months Personal Bank Statements 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.
- Maximum LTV = 80%
- First-Time Home Buyer maximum LTV 70%, no gift funds allowed.
- Borrower(s) employed by family members or related individuals are not eligible.
- An internet search of the business is required with documentation to be included in the credit file to support the existence of the business.
- Other sources of income, documented using Alt Doc, are eligible and can be used to determine total household qualifying income.
    - For the borrower utilizing the WVOE, no other active employment income may be utilized, passive income such as rental income can be included.

6.8 Asset Utilization

Asset Utilization may be used as the sole source of income for loan qualification or to supplement other income sources. When used to supplement other income sources, the minimum asset requirements under the qualification method are waived.

- See Lendz Financial Matrices for the max LTV
- Non-occupant co-borrowers not allowed
- Max 43% DTI
- Minimum 680 credit score
- Gift funds not eligible

Qualification Method:

The minimum Eligible Assets required is the lower of $1,000,000 or 150% of the loan balance. Qualifying income based upon Total Assets Eligible for Depletion, less down payment, less out of pocket closing costs, less required reserves, divided by 84. Maximum DTI 43%.

Required Documentation:

- All individuals listed on the asset account(s) must be on the Note and Mortgage;
- Assets considered for this program must be verified with most recent three (3) monthly account statements, quarterly statement, or a VOD;
- Assets must be seasoned 120-days; unless assets are proceeds from the sale of a home and can be documented as such.
- Income other than Asset Utilization must be documented in accordance with the Platinum program.

Eligible Assets:

Assets must be liquid and available with no penalty; additional documentation may be requested to validate the origin of the funds:

- 100% of Checking, Savings, and Money Market Accounts, and US Treasuries with maturity < 1-year;
- 100% of the cash surrender value of life insurance less any loans may be considered for assets;
- 70% of Stocks, Bonds, and Mutual Funds;
- 70% of Retirement Assets: Eligible if the borrower is of retirement age (at least 59 ½);
- 60% of Retirement Assets: Eligible if the borrower is not of retirement age.
- Assets are held in a revocable trust where the trustee to the trust is the borrower.
- Assets in an irrevocable trust where the borrower is the beneficiary, and the borrower has immediate access to the assets of the trust.
- Based upon the assets held in the trust, the above asset percentages apply.

Ineligible Assets:

- Equity in Real Estate;

- Privately traded or restricted/non-vested stocks;
- Any asset which produces income already included in the income calculation:
- Any assets held in the name of a business;
- Assets held in an irrevocable trust where the beneficiary of the trust is not the borrower;
- Assets held in a charitable giving trust, donor advised fund, or similar entity where the intended beneficiary is not the borrower.

6.9 DSCR

Debt Service Coverage Ratio transactions are available to experienced and first-time investors purchasing or refinancing investment properties for business purposes. The typical borrower is expected to have a history of managing income-producing rental properties or have a significant equity down payment in a purchase transaction. The borrower is required to execute a Borrower Certification of Business Purpose and an Occupancy Certification.

Debt Service Coverage Ratio is the Monthly Gross Income divided by the PITIA (or ITIA for interest-only loans) of the subject property. See the Lendz Financial Eligibility matrix for required Debt Service Coverage Ratios.

EXAMPLE: SAMPLE DEBT SERVICE COVERAGE RATIO CALCULATION

Single Family Purchase Money Transaction Monthly PITIA = $650

Estimated Monthly Market Rent (Fannie Mae® Form 1007) = $850 Existing Lease Monthly Rent = Not Available

Use Market Rent of $850 (Estimated Monthly Market Rent when a lease is not available for a purchase transaction). Gross Rents ($850) ÷ PITIA ($650) = DSCR (1.30)

HOUSING HISTORY

Housing history for the DSCR Doc type is limited to verifying the borrower's primary residence and the subject property if a refinance transaction. The documentation requirements under Section Housing History should be followed for verification.

- Any housing event reported on the credit report for any property owned by the borrower needs to be included in the housing history eligibility.
- For any non-subject property, non-primary mortgages not reporting to the credit bureau, additional housing history is not required.
- For refinance transactions of the subject property, when the existing financing is a Paid In Kind (PIK) loan, a copy of the note must be provided in the credit file to determine required payments. Notes allowing interest to accumulate during the term of the loan are eligible, however, all refinance of such are treated as cashout.

RESTRICTIONS

See the Lendz Financial Matrices for the maximum LTV/CLTV.

- If the loan amount is < $150,000 the minimum DSCR is 1.0.
- No rural properties maximum 10-acres.
    - See Lendz Matrix for LTV restrictions

- Gift funds permitted after a minimum 10% borrower contribution, documented per Asset Documentation
- The borrower may not occupy the subject property at any time.
- Cash-out on an investment property where loan proceeds are used for consumer purposes is prohibited.
- Minimum DSCR = .75 with the following conditions:
  - Purchase only
  - 720 FICO

<u>APPLICATION</u>

The borrower information section of the loan application (i.e., Fannie Mae Form 1003) should be completed.

The borrower's contact information must be provided on the loan application (i.e., Fannie Mae Form 1003).

No proof of borrower income is required.

<u>ASSETS</u>

For asset documentation requirements, follow DSCR - DSCR 1-4 Family Residential guidelines.

6.10.1 1-4 Family Residential Properties

Gross monthly rents are used to determine the DSCR.

A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser is required on all DSCR transactions.

See the appropriate Long Term or Short-Term requirements below for rental income documentation and DSCR calculation.

6.10.1.1 Long Term Rental

Purchase Transactions

- Monthly Gross Rents are the monthly rents established on FNMA Form 1007 or 1025 reflecting long term market rents.
- A vacant or unleased property is allowed without LTV restriction.

Refinance Transactions

- Required documentation:
  - FNMA Form 1007 or 1025 reflecting long-term market rents.
  - DSCR must qualify on 1007 market rents or trailing twelve-month rents
- A vacant or unleased property is allowed without LTV restriction and monthly gross rents are the monthly rents established on the 1007 or 1025 reflecting long-term market rents.

6.10.1.2 Short Term Rental

Short term rentals are properties which are leased on a nightly, weekly, monthly, or seasonal basis.

Short Term Rental Income – Refinance Transactions only

- LTV is capped at 75%

DSCR calculation:

- Monthly gross rents based upon a 12-month average to account for seasonality required.
- Gross rents reduced by 20% to reflect extraordinary costs (i.e., advertising, furnishings, cleaning) associated with operating short-term rental property compared to non-short- term property. If the rental documentation referenced below includes expenses, actual expenses should be compared to the 20% expense factor. If actual expenses are less than 20%, a minimum 20% expense factor is required to be utilized. If actual expense exceeds 20%, the actual expense factor should be used.
    - Ex. (Gross Rents * .80) divided by PITIA = DSCR.

Any of the following methods may be used to determine gross monthly rental income:

- A 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting short-term market rents.
- The most recent 12-month rental history statement from the 3rd party rental/management service.
    - The statement must identify the subject property/unit, rents collected for the previous 12 months, and all vendor management fees. The rental income will exclude all vendor or management fees.
- The most recent 12-month bank statements from the borrower evidence of short term rental deposits. The borrower must provide rental records for the subject property to support monthly deposits.

7 Assets

The following applies to all transactions unless otherwise stated.

7.1 Asset Documentation

The following may be used as asset documentation for down payment, closing costs, and reserves. See applicable Loan/LTV matrix for minimum reserve requirement.

- Account statements (e.g., checking, savings, share, or brokerage accounts). Statements must include the following:
    - Name of financial institution
    - Borrower reflected as the account holder (Funds held jointly with a non-borrowing spouse are considered 100% of the borrower's funds)
    - Account number
    - Statement date
    - Time period covered by the statement
    - Available balance in U.S. dollar denomination

- Assets held in foreign accounts must be translated to English and verified in US Dollar equivalency at the current exchange rate via either http://www.xe.com or the Wall Street Journal conversion table.
- Assets held in in a Trust require the following:
  - Obtain written documentation (e.g., bank statements) of the value of the trust account from either the trust manager or the trustee, and
  - Document the conditions under which the borrower has access to the funds
- Accounts verified using a third-party vendor participating in the Fannie Mae Day 1 Certainty® process.
- Verification of Deposit completed by the verifying financial institution (Fannie Mae® Form 1006).
- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity. Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts. When qualifying the borrower, monthly payment must be included in the debt-to-income calculation for non-DSCR transactions. When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

Large deposits on any of the above asset documentation must be sourced. Large deposits are defined as any single deposit that represents more than 50% of the borrower's qualifying monthly income. Large deposits do not need to be sourced on DSCR loans.

- Stocks/bonds/mutual funds - 100% of the account(s) value may be considered for assets.
- Vested retirement account (e.g., IRA, 401k, Keogh, 403b) - 70% of the vested balance may be considered for assets. For downpayment and closing costs, if funds haven't been liquidated, confirm the borrower can access/withdraw funds.
- Business accounts may be considered for assets.
  - Full access letter required from all other business owner(s) if borrower is not 100% owner of the business.
- Cash Value of Life Insurance - 100% of the cash surrender value less any loans may be considered for assets.
- Non-regulated Financial Assets:
  - Crypto Currency – Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization/depletion.
    - Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
    - Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30 days of the loan Note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

The following are not acceptable as asset documentation:

- Non-vested or restricted stock accounts
- Cash-on-hand
- Sweat equity
- Gift or Grant funds which must be repaid
- 529 Savings Plan
- Down payment assistance programs
- Funds contributed by a non-borrowing spouse unless documented as a gift. See Section Gift Funds.
- Unsecured loans or cash advances

7.2 Asset Requirements

Acceptable asset documentation is required to be included in each loan file. The borrower must meet the minimum contribution amount per program requirements. Assets should be liquid or able to be liquidated without restriction by the borrower. The documentation requirement for all transactions is statements covering a one (1) month period and dated within 120 days of the loan note date.

7.3 Reserves

Lendz Financial loan program requires minimum reserves as outlined on the Lendz Financial Loan\LTV matrices.

Net proceeds from a cash-out transaction may be used to meet reserve requirements.

Reserve requirements are waived for Rate-And-Term Refinance transactions when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater AND housing history is 1x30x12 or better. Waiver not eligible for DTI greater than 50%. For an Interest Only loan, the reduction is based on the amortizing payment used for loan qualification.

Reserves for a loan with an Interest Only feature are based upon the Interest Only payment amount.

Proceeds from a 1031 Exchange cannot be used to meet reserve requirements.

7.4 Gift Funds

For owner occupied transactions with an LTV of 80% or lower 100% of the downpayment, closing costs. Gift funds may not be used to cover reserve requirements.

For owner-occupied transaction with an LTV of greater than 80% the borrower must provide minimum contribution of a 5% downpayment from their own funds.

For investment transactions the borrower must come with a minimum contribution of 10% downpayment from their own funds regardless of the LTV.

7.4.1 Eligible Donors

A gift can be provided by:

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

For any gift provided by a non-US citizen, the donor must be screened against the OFAC Specially Designated Nationals (SDN) list.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

7.4.2 Documentation

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

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

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

A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.

Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

VERIFYING DONOR AVAILABILITY OF FUNDS AND TRANSFER OF GIFT FUNDS

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account and reflected on the most recent bank statement. Acceptable documentation includes the following:

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

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

- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence or Second Homes. Must meet all other guidelines for Gift Funds.

8 Collateral/Property Eligibility

8.1 Appraisals

8.1.1 Appraisal Requirements 1-4 Unit Residential

Lendz Financial reserves the right to review all valuation reports and determine if the subject property value is supported.

Appraisers must meet all industry standards and be State Certified. State Licensed Appraisers and Trainees are not permitted. All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae® guidelines, including Universal Appraisal Dataset (UAD) requirements. Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value. Lendz Financial reserves the right to restrict the use of any specific appraiser and/or appraisal management company at its discretion.

Underwriters are responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. The underwriter needs to determine that the subject property provides acceptable collateral for the loan. For guidance in the manual review of an appraisal report, see the Appraisal Review Guide.

The age and price of the subject property should fall within the age and price range of properties in the subject neighborhood. Comparable properties should be selected from the same neighborhood when possible. Selection of a comparable outside the subject neighborhood should be addressed within the report. For condominiums, at least one comparable should be from outside the subject project. Ideally, comparable sales should be within six months of the report date. Older comparable sales that are the best indicator of value should be addressed in comments by the appraiser.

A Full Interior/Exterior appraisal report, including color photographs, requires use of one of the following forms depending on the property type:

- Uniform Residential Appraisal Report – Fannie Mae®/Freddie Mac Forms 1004/70
- Small Residential Income Property Report – Fannie Mae®/Freddie Mac Forms 1025/72
- Individual Condominium Unit Appraisal Report – Fannie Mae®/Freddie Mac Forms 1073/465
- Appraisal Update and/or Completion Report – Fannie Mae®/Freddie Mac Forms 1004D/442
- Single Family Comparable Rent Schedule – Fannie Mae®/Freddie Mac Forms 1007/1000

Underwriters must order appraisals using one of two processes. The appraisal must either be ordered through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR), or via the correspondent's own AIR-compliant process.

8.1.1.1 Appraiser License and Certification

The appraisal report forms identify the appraiser as the individual who:

- Performed the analysis, and
- Prepared and signed the original report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee.

An unlicensed or uncertified appraiser, or trainee (or some other similar classification) may perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraisal certification as the Appraiser if:

- They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- The right side of the appraiser certification is signed by that supervisory appraiser, and

- It is acceptable under state law.

8.1.1.2 Appraisal Age

The appraisal should be dated no more than 365 days prior to the Note date.

When an appraisal report will be more than 120 days old on the date of the Note, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D).

- If the appraiser indicates on Form 1004D that the property value has declined, then the underwriter must obtain a new appraisal for the property.
- If the appraiser indicates on Form 1004D that the property value has not declined, then the underwriter may proceed with the loan in process without requiring any additional fieldwork.

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

8.1.1.3 Second Appraisal

A second appraisal is required when any of the following conditions exist:

- The loan balance exceeds $2,000,000 for either a single property loan or the allocated loan balance of a property within a cross-collateral loan.
    - (2nd appraisal not required when Form 71A Multifamily or a commercial narrative report utilized).
- The transaction is a flip as defined in the Property Flipping section of this guide.
- As required under the Appraisal Review Products section of this guide.

When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal.

8.1.1.4 Neighborhood Analysis

Neighborhood boundaries should be described using the four (4) cardinal directions, streets, waterways, other geographic features, and natural boundaries that define the separation of one neighborhood from another.

Neighborhood characteristics should be described with types and sizes of structures, architectural styles, current land uses, site sizes, and street patterns or designs.

Factors that affect value and marketability should be mentioned in as much detail as possible – e.g., proximity of the property to employment and amenities, public transit, employment stability, market history, and environmental considerations.

8.1.1.5 Existing Construction

If the appraiser reports the existence of minor conditions or minor deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is." These items must be reflected in the appraiser's opinion of value.

When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the Seller must obtain a certificate of completion from the appraiser before the mortgage is delivered to Lendz Financial.

8.1.1.6 Subject Section

The appraiser is required to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- Offering price(s)
- Offering date(s)
- Data source(s) used

For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report both offerings.

8.1.1.7 Actual and Effective Ages

There is no restriction on the actual age of the dwelling. Older dwellings that meet general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood. The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or might have a specific physical problem. In such cases, the underwriter should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser adjusts for the "Year Built," he or she must explain those adjustments.

8.1.1.8 Accessory Units

Lendz Financial will purchase a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.

- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- For properties located in California, if zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
  - Appraisal reflects the accessory is legal and the appraisal report includes at least one comp with an accessory unit.
  - Refinance – The market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of a current lease with two (2) months proof of current receipt.
  - The rental income from an accessory dwelling unit (ADU) may not be used in the calculation of DSCR.

8.1.1.9 Outbuildings

A Seller must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

TYPE OF OUTBUILDING	SUITABILITY
Minimal outbuildings, such as small barns or stables, that have relatively insignificant value in relation to the total appraised value of the subject property	The appraiser must demonstrate, using comparable sales with similar amenities, that the improvements are typical of the residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal building	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals	The presence of the outbuildings may indicate that the property is agricultural in nature. The underwriter must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

8.1.1.10 Transfer of Appraisal

A transferred appraisal report is acceptable provided the report meets the lender's appraisal requirements for independence.

8.1.2 Appraisal Minimum Requirements

MINIMUM SQUARE FOOTAGE		
Single Family 500 sq. ft.	Condominium 400sq. ft.	2-4 Units 400 sq. ft per individual unit

All properties must:

- Be improved real property.
- Be accessible and available for year-round residential use.
- Contain a full kitchen and a bathroom.
- Represent the highest and best use of the property.
- Not contain any health or safety issues.

8.1.3 Personal Property

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

8.1.4 Escrow Holdbacks

Escrow holdbacks are not allowed. Any repair or maintenance required by the appraiser must be completed prior to loan purchase. Lendz Financial will not acquire any loan with an escrow holdback.

8.1.5 Declining Markets

The loan transaction is subject to a 5% LTV reduction if the property is in a declining market. Declining markets are determined by a) property location in a State/CBSA identified by Lendz, or b) the appraisal report reflects a declining market under housing trends.

8.1.6 Property Flips – TILA HPML Appraisal Rule 1026.35(A)(1)

Applies to covered HPML transactions.

- Qualified Mortgages (QM) are excluded.

A property is considered a “flip” if either of the following are true:

- The price in the borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower’s purchase agreement.
- The price in the borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower’s purchase agreement.
- The acquisition date is the day the seller became the legal owner. The purchase date is the day the borrower and the seller sign the home purchase agreement. Start with the day after the acquisition date and count up to and including the purchase date.

If the property is a “flip” as defined above, the following additional requirements apply:

- A second appraisal must be obtained.
- If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the

borrower in compliance with the federal HPML requirements.

- The second appraisal must be dated prior to the loan consummation/note date.
- The property Seller on the purchase contract must be the owner of record.
- Increases in value should be documented with commentary from the appraiser and recent comparable sales.
- Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable.

8.1.7 Appraisal Completed Prior to Disasters

An exterior inspection of the subject property, performed by the original appraiser, if possible, is required.

- The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same.
- An Inspection Report must include new photographs of the subject property and street view.
- Any damage must be repaired and re-inspected prior to funding.

8.1.8 Appraisals Completed After Disaster Event

The appraiser must comment on the adverse event and certify that there has been no change in the valuation.

Any existing damage noted in the original report must be repaired and re-inspected prior to funding.

8.2 Appraisal Review

An appraisal review product is required on every loan file unless a second appraisal is obtained. The appraisal review product should provide an “as is” value for the subject property (the “Appraisal Review Value”) as of the date of the subject loan transaction.

The following options are eligible review products.

- The underwriter may submit the appraisal report to Collateral Underwriter® (CU®) or Loan Collateral Advisor® (LCA). An eligible score is 2.5 or less. The file must include a copy of the Submission Summary Report (SSR). (Only one score required, if both scores (CU & LCA) provided, both required to be 2.5 or less). If the score exceeds 2.5, the file must include either an enhanced desk review, field review, or second appraisal.
- An enhanced desk review product from one of the following choices:
    - ARR from Stewart Valuation Intelligence FKA Pro Teck
    - CDA from Clear Capital
    - ARA from Computershare
    - CCA from Consolidated Collateral Analysis

If the enhanced desk review product reflects a value more than 10% below the appraised value or cannot provide a validation, the file must include either a field review or a second appraisal. A field review or a second appraisal is acceptable. These may not be from the same appraiser or appraisal company as the original report.

8.3 Eligible Properties

- Single Family Detached
- Single Family Attached
- 2-4 Unit residential properties
- Condominium
- Modular homes
- Properties of 10 acres or less
- Leaseholds (in areas where leaseholds are common)
- Rural properties

8.4 Condominiums

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. The units in the project must be owned in fee simple and the unit owners must have the sole ownership interest in and rights to the use of, the project's facilities, common elements, and limited common elements.

<u>WARRANTABLE CONDOMINIUM</u>

- A condominium is considered warrantable if it meets Fannie Mae's requirements.
- 10% deductible master insurance is acceptable.
- 90% co-insurance is acceptable

<u>NON-WARRANTABLE CONDOMINIUM:</u>

- If the project does not meet the criteria for a warrantable condominium, it will be considered non-warrantable.
- Allowed using the Lendz Financial limited review form (See exhibit A)
- Transactions must meet the LTV restrictions in the table below to be eligible.
- 10% deductible master insurance is acceptable.
- 90% co-insurance is acceptable

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

Lendz Financial condo project exposure maximum may be $5,000,000 or 20% of project whichever is lower.

Ineligible projects include the following:

- Timeshares or projects that restrict the owner's ability to occupy the unit.
- Projects that include combination live and work units.
- Manufactured home projects.

- Assisted living facilities, continued care facilities and life care facilities.
- Multi-family units where single deed has ownership of more than one or all of the units.
- Condo conversions less than 2 years.
- Where more than 50% of the total square footage in the project is used for non-residential purposes.
- Common interest apartments.
    - A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
    - The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Projects in litigation or other disputes involving safety, soundness or habitability.
- Projects with adverse environmental issues involving safety, soundness or habitability.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Houseboat project.
- Any project in need of critical repairs with one of the following characteristics:
    - mold, water intrusions or potentially damaging leaks to the project's building(s); or
    - unfunded repairs costing more than $10,000 per unit undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through special assessment).

8.6 Acreage Limitations

A maximum of 10 acres

No truncating allowed

8.7 Leasehold Properties

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

The underwriter must provide documentation and leaseholds must meet all Fannie Mae® eligibility requirements (i.e., term of lease).

8.8 Ineligible Properties

- Vacant land or land development properties
- Properties not readily accessible by roads that meet local standards

- Properties not suitable for year-round occupancy, regardless of location
- Agricultural properties (including farms, ranches, or orchards)
- Manufactured or Mobile homes
- Condotels
- Co-op/timeshare hotels
- Cooperative share loans
- Properties used as boarding houses, bed/breakfast, or single room occupancy
- Properties with zoning violations
- Properties with non-residential zoning
- Multi-unit (5+ units) – mixed use
- Dome or geodesic homes
- Assisted living facilities
- Homes on Native American Land (Reservations)
- Log homes
- Hawaii properties located in lava zones 1 and/or 2
- Houseboats
- Fractional ownership
- Properties used for the cultivation, distribution, manufacture, or sale of marijuana

INELIGIBLE PROJECTS:

- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or projects that restrict the owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
- A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
- The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
- Fragmented or segmented ownership

- Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.

9 Location

9.1 State Eligibility

Owner Occupied: AZ, CA, CO, GA, FL, OH, IL, MI, NJ, TX

Business Purpose: AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, IA, IL, IN, KS, KY, LA, MA, MD, ME, MI, MO, MS, MT, NC, NE, NH, NJ, NM, NY, OH, OK, PA, RI, SC, TN, TX, WA, WI, WV, WY

Business Purpose (licensing not required): AL, AR, CO, CT, DC, DE, FL, GA, IA, IL, IN, KS, KY, LA, MA, MD, ME, MI, MO, MS, MT, NC, NE, NH, NJ, NM, NY, OH, OK, PA, RI, SC, TN, TX, WA, WI, WV, WY

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

A Texas Section 50(a)(6) mortgage is a home equity loan originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution, which allow a borrower to take equity out of a homestead property under certain conditions. All loans must comply with the requirements listed in the Texas Constitution.

9.3 New York – CEMA

Consolidation, Extension, and Modification Agreement (CEMA) may be utilized for refinance transactions secured by property located in the State of New York. Attorney's experienced in reviewing and preparing CEMA documentation should be utilized.

9.4 Disaster Areas

Underwriters are responsible for identifying geographic areas impacted by disasters and taking appropriate steps to ensure the subject property has not been adversely affected. The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA website at www.fema.gov/disasters. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence must be used to determine if the disaster guidelines should be followed.

See the appraisal section for disaster related appraisal requirements.

The guidelines for disaster areas should be followed for 120 days from the disaster declaration date as published by FEMA.

10 Title

10.1 Title Policy Requirements

Each loan funded by Lendz Financial must include a title insurance policy. If the file contains the Commitment for Title Insurance, it must indicate the policy will be issued upon payment of the premium. The underwriter must represent and warrant that the loan is covered by the required title policy, issued by a licensed insurer, and includes any required endorsements. The title insurer and policy must conform to Fannie Mae® requirements.

10.1.1 Terms of Coverage

The title insurance policy must ensure the title is acceptable and that the mortgage represents a first lien on a fee simple estate in the property. The title policy must also list all other liens and reflect they are subordinate. The title insurance policy must be updated with Its Successors and/or Assigns ISAOA language. When the borrower is an Entity, the title insurance policy must provide protection regarding whether the signatories had the authority to validly execute the mortgage document. The policy must be written on one of the following forms:

- The 2006 American Land Title Association (ALTA) standard form.
- An ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form.
- In states in which standard ALTA forms of coverage are, by law or regulation, not used, the state- promulgated standard or short form which provides the same coverage as the equivalent ALTA form.
- For Adjustable-Rate Mortgages, the policy must include ALTA Endorsement 6-06.

10.1.2 Effective Date of Coverage

The effective date of the title insurance coverage written on forms that do not provide the gap coverage included in the 2006 ALTA policies may be no earlier than the later of the date of the final disbursement of loan proceeds or the date the mortgage was recorded.

Because the 2006 ALTA forms provide protection for the time between loan closing and recordation of the mortgage, policies written on those forms may be effective as of loan closing.

10.1.3 Amount of Coverage

The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

10.1.4 Mortgage Electronic Registration System (MERS)

If a mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, solely as nominee for Reliable Holdings Manager, LLC DBA Lendz Financial named in the security instrument and Reliable Holdings Manager, LLC DBA Lendz Financial’s successors and assigns, then the "insured mortgage" covered by the title insurance policy must be identified in the title insurance policy as the security instrument given to MERS, solely as nominee for the lender and lender's successors and assigns. However, under no circumstances may MERS be named as the insured of a title policy.

10.1.5 Other Requirements

The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form providing the required coverage).

References are to the ALTA 2006 form of endorsement, but state forms may be used in states in which standard ALTA forms of coverage are, by law or regulation, not used, provided that those endorsements do not materially impair the protection to Lendz Financial. As an alternative to endorsements, the requisite protections may be incorporated into the policy.

Title policies may not include the creditors’ rights exclusion language that ALTA adopted in 1990.

10.1.6 Chain of Title

All files must contain a 24-month title history. Transfer date, price, and buyer and Seller names should be provided for any transfers that occurred within the past 24 months.

10.1.7 Condominium or Planned Unit Developments (PUD)

The title insurance policy for a condominium or PUD unit mortgage must describe all components of the unit estate.

For condominium unit mortgages, an ALTA 4-06 or 4.1-06 endorsement or its equivalent is required. For PUD unit mortgages, an ALTA 5-06 or 5.1-06 endorsement or its equivalent is required. These endorsements must be attached to each policy or incorporated into the text of the policy.

If the unit owners own the common areas of the project as tenants in common, the policy for each unit's mortgage must reflect that ownership.

If the homeowners' association (HOA) owns the common elements, areas, or facilities of the project separately, the title insurance on those areas must insure that ownership.

This title policy must show that title to the common elements, areas, or facilities is free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or materials related to improvements on the common areas that began before the title policy was issued.

The title policy must protect Lendz Financial by insuring:

- that the mortgage is superior to any lien for unpaid common expense assessments. (In jurisdictions that give these assessments a limited priority over a first mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy.)
- against any impairment or loss of title of the first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. (It must specifically insure against any loss that results from a violation that existed as of the date of the policy.)
- that the unit does not encroach on another unit or on any of the common elements, areas, or facilities. (The policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.)
- that the mortgage loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes.
- that real estate taxes are assessable and lienable only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole.
- that the owner of a PUD unit is a member of the homeowners' association, and that the membership is transferable if the unit is sold.

10.1.8 Title Exceptions

Lendz Financial will not purchase or securitize a mortgage secured by property that has an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions.

If surveys are not commonly required in particular jurisdictions, the underwriters must provide an ALTA 9 Endorsement. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

10.1.9 Minor Impediments to Title

Title for a property that secures a conventional mortgage is acceptable even though it may be subject to the following conditions, which Lendz Financial considers minor impediments:

- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements.
- Above-surface public utility easements that extend along one or more of the property lines
- for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself.

10.2 Title Vesting and Ownership

Ownership may be fee simple or leasehold title. For more information regarding leaseholds, see Leasehold Properties.

Title must be in the borrower's name (owner-occupied property) at the time of application for refinance transactions.

Eligible forms of vesting are:

- Individuals
- Joint Tenants
- Tenants in Common
- Inter vivos revocable trust
- Illinois land trusts

Ineligible forms of vesting are:

- Land trusts
- IRAs
- Blind trusts

Title vesting in an inter vivos revocable trust is permitted when the requirements set forth in this section are followed. The Fannie Mae® requirements should be followed to the extent this section is silent.

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

The trustee must include either:

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

The trustee must have the power to hold the title, and mortgage the property. This must be specified in the trust. One or more of the parties establishing the trust must use personal income or assets to qualify for the mortgage the following documentation is required:

If the trust was created under California law:

- a fully executed Certificate of Trust under Section 18100.5 of the California Probate Code or
- a copy of the Trust Agreement.

If the trust was created under the laws of a state other than California, an Attorney's Opinion Letter from the borrower's attorney or Certificate of Trust verifying all the following:

- The trust is revocable.
- The borrower is the settler of the trust and the beneficiary of the trust.
- The trust assets may be used as collateral for a loan.
- The trustee is:
    - Duly qualified under applicable law to serve as trustee
    - The borrower
    - The settler
    - Fully authorized under the trust documents and applicable law to pledge, or otherwise encumber the trust assets

Limited Liability Companies, Partnerships, Corporations, and S Corporations (each, an "Entity") in accordance with the requirements listed below:

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

- Restricted to investment properties only.
- Purpose and activities are limited to ownership and management of real property.
- Entity must be domiciled in a US State.
- Any business structure is limited to a maximum of four (4) owners or members.
- Personal guaranties (full recourse) must be provided by members representing at least 50% ownership of the entity.
- Each Entity member providing a personal guaranty (full recourse) must complete a Form 1003 or similar credit application indicating clearly that such document is being provided in the capacity of guarantor. Only the debt appearing on the personal credit report of
- individual(s) providing a personal guaranty needs to be reflected on the 1003 loan application. The application of each member providing a personal guaranty and their credit score, and creditworthiness will also be used to determine qualification and pricing.
- Originator or broker shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan. Such structures shall be initiated and arranged by the members of the Entity.
- The following Entity documentation must be provided:
    - Limited Liability Company
    - Entity Articles of Organization or Partnership

- Certificate of Good Standing or equivalent
- Foreign LLC Certificate of Good Standing or equivalent if entity not formed in subject property state
- Certificate of Authorization for the person executing all documents on behalf of the Entity. The authorization may be determined in an Operating Agreement or other corporate documents. If not, a Borrowing Certificate is required.
- Borrowing Certificate (LLC Borrowing Certificate - Single Member or LLC Borrowing Certificate - Multiple Member)
- Corporate documents that contain a list of owners, title, and ownership percentage, e.g., organization structure
- Tax Identification Number (Employer Identification Number - EIN)
  - Single Member LLC may use EIN or the guarantor social security number
  - All multi-member LLCs must have an EIN

- Corporation
  - Filed Certificate/Articles of Incorporation (and all amendments)
  - By-Laws (and all amendments)
  - Certificate of Good Standing (Issued by the Secretary of State (SOS) where the Corporation is incorporated)
  - Tax Identification Number (EIN)
  - Borrowing Resolution/Corporate Resolution granting authority of signer to enter loan obligation
  - Receipt of current year franchise tax payment or clear search
- 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 SOS where the partnership is registered)
  - Tax Identification Number (EIN)
  - Limited partner consents (where required by partnership agreement).

Documents must be completed and signed as follows:

- Signed as an individual by all members of the Entity:
  - Loan Application (Fannie Mae® Form 1003)
  - Completed for each individual member of the Entity.
  - Section labelled “Title will be held in what Name(s)” should be completed with only the LLC name.
  - Signed by Individuals

- Personal Guaranty
    - Completed for each individual member of the entity.
    - The guaranty should be executed at loan closing and dated the same date as the Note.
    - Personal Guaranties from community property states (AK, AZ, ID, LA, NM, TX, WA, WI) must be accompanied with a Spousal Consent to Pledge. See Spousal Consent Form.
- Signed by the authorized signer for the entity:
    - Disclosures (e.g., GFE, TIL, ECOA)
    - Any state or federally required settlement statement
    - Note, Deed of Trust/Mortgage, and all Riders

10.3 Power of Attorney

Lendz Financial does not allow power of attorney.

A limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction;
- It is recorded with the Mortgage/Deed of Trust;
- It contains an expiration date;
- It is used to execute only the final loan documents;
- The Borrower who executed the POA signed the initial FNMA Form 1003;
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.
- Not eligible for cash-out transactions or with Foreign National borrowers

11 Insurance

11.1 Property Insurance Coverage

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

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

The hazard insurance coverage should be equal to the lesser of:

- Replacement Cost Estimator from the property insurer or a 3rd party source (i.e., CoreLogic), if provided

- Estimated cost to replace the dwelling from a recent appraisal, if provided
- The unpaid principal balance of the mortgage

11.3 Flood Insurance

The underwriter must ensure that the property securing the mortgage loan is adequately protected by flood insurance when required. Flood insurance coverage is required when a mortgage loan is secured by a property located in

- a Special Flood Hazard Area (SFHA), or
- a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA). (See below for additional information.)

The underwriter must determine whether or not the property is located in an SFHA by using the Standard Flood Hazard Determination form endorsed by FEMA. All flood zones beginning with the letter "A" or "V" are considered SFHAs.

The following table describes how to evaluate a property to determine if flood insurance is required. For the purpose of these requirements, the "principal structure" is the primary residential structure on the property securing the mortgage loan.

If...	Then flood insurance is...
Any part of the principal structure is located in an SFHA,	Required.
The principal structure is not located in an SFHA, but a residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	Required for the residential detached structure.
The principal structure is not located in an SFHA, but a non- residential detached structure attached to the land that serves as part of the security for the mortgage loan is located within the SFHA	Not required on either structure.
The principal structure is not located in an SFHA, but a detached structure attached to the land that does not serve as part of the security for the mortgage loan is located within the SFHA	Not required on either structure.

The minimum amount of flood insurance required for first-lien mortgages is the lowest of:

- 100% of the replacement cost of the insurable value of the improvements,
- The maximum insurance available through the NFIP, or
- The unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).

Minimum coverage must be equal to the dwelling coverage for hazard insurance, subject to the following:

- 1-4 Unit Properties: If dwelling coverage for hazard insurance is greater than $250,000 then flood coverage must be $250,000 as this is the maximum allowed per FEMA

- 5+ Units Properties: If dwelling coverage for hazard insurance is greater than $500,000 then flood coverage must be $500,000 as this is the maximum allowed per FEMA.

11.3.1 Acceptable Flood Insurance Policies

The flood insurance policy must be one of the following:

- a standard policy issued under the NFIP; or
- a policy issued by a private insurer as long as the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer.

11.4 Condominium Insurance Requirements

<u>COVERAGE</u>

Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins, and any improvements made to the unit.

Project meets all Fannie Mae insurance requirements for property, liability, and fidelity coverage.

90% co-insurance is allowed.

<u>FIDELITY OF EMPLOYEE DISHONESTY INSURANCE FOR CONDOMINIUMS</u>

For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least sum of three months of assessments on all units in the project is required.

<u>HO-6</u>

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.

<u>DEDUCTIBLE</u>

The maximum deductible amount must be no greater than 10% of the face amount of the policy.

<u>FLOOD INSURANCE</u>

The condominium homeowners’ owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:

- Building Coverage must equal the lesser of:
  - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
  - The total number of units in the condominium building times $250,000
- Contents Coverage must equal the lesser of:
  - 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
  - The maximum amount of contents coverage sold by the NFIP for a condominium building

12 Age of Documents

The following documents may not be more than 90 days old at closing (the date the Note is signed):

- Income verification / pay stubs
- Mortgage /rental verification
- Asset documents / bank statements
- Title commitment / preliminary report / binder
- Credit Report

Any credit review documents exceeding these timeframes must be updated.

Appraisals: The appraisal must be dated within 365 days of the Note date. Recertification of value required if the report exceeds 120 days of the Note Date. See complete appraisal requirements in Appraisal Requirements.

13 EXHIBIT A - 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 though 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 owned 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 total 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 litigation other than as the Plaintiff in a lawsuit against unit owners to collect unpaid common expense assessments, or as a "Necessary Defendant" in a mortgage 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