

SERIES 5 – CES - NON-QM ELIGIBILITY GUIDELINES

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Section 1.0 Introduction

1.1 Overview and Underwriting Philosophy

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

1.2 Underwriting Criteria

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

1.2.1 Ability-To-Repay (ATR)

Lendz Financial recommends the [Exhibit B: Ability-To-Repay Borrower Attestation](#) or similar document be included with all loan files delivered for purchase.

1.2.2 Underwriting Documentation

All loans must be manually underwritten. The Underwriting Approval, Income Calculation Worksheet, and the Underwriter’s determination of ATR is required as part of the credit package.

As an option, the lender may utilize an AUS Recommendation for guidance on income documentation in lieu of documentation requirements on matrix.

Section 2.0 CES Program and Requirements

2.1 Program Overview

The Lendz Financial closed-end second (CES) can be stand-alone and in combination with new first liens(piggy-back). When used in combination with a new first mortgage, the income documentation used for qualifying must be the same for both liens.

See Matrix for details and program specific.

- The CES is designed for primary, second home and investment borrowers. For both QM and Non-QM transactions, with flexibility in mortgage history, credit history, and/or payment and documentation options. This program offers expanded credit parameters for multiple borrower profiles while utilizing standard and alternative document types. On piggy-back transactions, the income documentation type for the CES must match the requirements of the 1st lien approval.
 - Full Doc 1 or 2 Yrs: Standard FNMA Documentation
 - Alt Doc Bank Statements: 12, 24 Bank Statements

2.2 Eligible Products

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

- Fully Amortizing Fixed Rate
 - Qualifying ratios are based on PITIA payment with the principal and interest payments amortized over the loan term.
 - 10, 15, 20, 30 year fixed rate.
- Balloon Notes.
 - 30/15, 40/15
 - See matrix for limitations.

2.3 Ineligible Senior Liens

A copy of the most current 1st mortgage statement is required to determine eligibility. Statement date to be within 60 days of Note date. Additional 1st mortgage documentation may be required to provide sufficient data for underwriting.

- Loans in active forbearance or deferment. Deferred balance due to a documented hardship may remain open. Without documented hardship, deferred amounts must be paid through closing.
- Loans with negative amortization.
- Reverse mortgages.
- Balloon loans that the balloon payment comes due during the amortization period of the 2nd loan.
- Private Party.

2.4 Interest Only Senior Liens

Interest only senior liens are acceptable when qualified at a maximum DTI of 45%. Qualify I/O on fully-amortized payment on the remaining term after the I/O period. 1st lien ARMS with < 3 years fixed period remaining qualified on fully indexed payment.

2.5 Maximum Combined Liens

The maximum combined 1st and 2nd liens is based on the loan amount. See matrix for limits.

2.6 Seasoning: Loan and Document

Lendz Financial will typically not purchase loans seasoned more than 90 days from the Note Date at the loan delivery date.

Age of documents from Note Date.

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

2.7 Seasoning: Property Listing

Properties that have been on the market within six months of the application date are ineligible.

2.8 Seasoning: Ownership

Properties owned less than six (6) months ineligible. Properties owned greater than six (6) months – no restrictions.

2.9 Borrower Contact Consent Form

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

2.10 State and Federal High-Cost Loans

Not eligible for Lendz Financial loan purchase.

2.11 Legal Documentation

Available Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation.

2.12 Interest Credit

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

2.13 Assumability

Second lien products are not assumable.

2.14 Property Hazard Insurance

2.14.1 Coverage Requirements

Following Fannie Mae (FNMA) guidance, the property insurance policy must provide the claims to be settled on a replacement cost basis. The coverage amount must be at least equal to the lesser of:

- 100% of the replacement cost of the improvements as of the current property insurance effective date, or
- The unpaid principal balance of all liens, provided it equals no less than the replacement cost value of the improvements

Follow FNMA guidance for additional information.

Lender is to be added as additional loss payee

2.15 Flood Insurance

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

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

2.15.1 Flood Certificate

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

The flood insurance requirement can be waived if:

- Subject property improvements are not in the area of Special Flood Hazard, even

- though part of the land is in Flood Zone A or V; or
- Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard

2.15.2 Minimum Flood Insurance Coverage

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

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

The minimum amount of flood insurance required for a PUD or condo project is the lower of:

- 100% of the insurable value of the facilities; or,
- the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

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

Section 3.0 Property Eligibility

3.1 Appraisals

Collateral evaluation requirements for the second mortgage program.

3.1.1 Appraisal Options

On purchase transactions, a copy of the appraisal with original pictures and any secondary valuation used on the 1st mortgage is acceptable.

Higher-Priced Mortgage Loan (HPML)

Primary and 2nd Homes:

- o Full Appraisal (1004, 1025, 1073)
- o Declining markets maximum 75% CLTV

HPML QM Safe Harbor or Rebuttable Presumption (Full Doc only)

Primary and 2nd Homes:

- Loan amounts < \$400,000 AVM with a 90% Confidence Factor and a Property Condition Inspection from:
 - o Clear Capital
 - o Collateral Analytics
 - o CoreLogic
 - o HouseCanary
 - o Homegenius
 - o Quantarium
 - o Veros
- Full appraisal is required when AVM has less than 90% Confidence Factor.
- Loan amounts > \$400,000
 - o Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV

Non-HPML

Primary and 2nd Homes:

- Loan amounts < \$250,000 AVM with a 90% Confidence Factor and a Property Condition Inspection from:
 - o Clear Capital
 - o Collateral Analytics
 - o CoreLogic
 - o HouseCanary
- Full appraisal required when AVM has less than 90% Confidence Factor.
- Loan amounts > \$250,000
 - o Full Appraisal (1004, 1025, 1073)
- Declining markets maximum 75% CLTV Investor

Investor:

- New 2055 Appraisal and Appraisal Desk Review supporting value within 10% variance. If the review variance is greater than 10%, the lower of the two is to be used to calculate CLTV.
or
- Previous appraisal within 12 months and an Appraisal Desk Review. The Desk Review value must be equal to or greater than the appraisal value to use the previous appraisal value.
- Declining markets maximum 70% CLTV on investor properties.

3.2 Minimum Property Standards

Minimum property standards include but may not be limited to:

- 600 square feet.
- Property constructed for year-round use
- Permanently affixed continuous heat source
- Maximum deferred maintenance cannot exceed \$2,000
- No health or safety issues both internal or external

3.2.1 Eligible Property Types

- SFR, PUD, Townhome, Rowhome, Modular
- 2-4 Units
- Condos – Warrantable
- Rural – Primary, Full Doc only. Maximum 5 acres. See matrix for LTV.

3.2.2 Ineligible Property Types

- Rural Investment Properties & Rural 2nd Homes
- Condotels
- Non-warrantable Condos
- Manufactured
- Log Homes
- Working Farms and Hobby Farms
- Unique Properties
- Agricultural or Commercial Zoned Properties
- Co-ops
- Room and Board Facilities
- Adult Assisted Living/Care Facilities
- Mixed-Use
- Land Trust
- Deed-restricted properties

3.2.3 Acreage Limitations

- Maximum 10 acres
- Maximum 5 acres on Rural, Primary Residence.

3.2.4 Texas Equity Section 50(a)(6)

Texas Section 50(a)(6) cash-out loans are eligible only with prior approval from Vista Point Mortgage

3.3 State Ineligibility

Loans categorized as NY Subprime.

3.4 Title Vesting and Ownership

Ownership must be fee simple or leasehold

Acceptable forms of vesting are:

- Individuals
- Joint tenants
- Tenants in Common
- Inter Vivos Revocable Trust
- Business Entity – Investor properties only. With current vesting in:
 - Limited Liability Company (LLC)
 - Limited and General Partnerships
 - Corporations

3.4.1 Inter Vivos Revocable Trust

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

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

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

3.4.2 Business Entity

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

Loans must be originated only in individual borrower(s) names. Entities are eligible for vesting only

The following standards apply:

- All persons with $\geq 25\%$ interest in the business entity (“Interested Persons”) must apply for the loan and meet credit requirements
- Maximum of four (4) individual members/partners/shareholders. No entities as members.
- Persons who sign the note or a personal guaranty must sign an Occupancy Affidavit prior to closing.
- Collateral documents must be signed as follows:

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

The following documentation must be provided:

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

3.5 Leasehold Properties

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

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

3.6 Solar Liens

Solar liens must be paid-off prior to closing.

3.6 Limitations on Financed Properties

Primary and Second Homes

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

Investor Properties

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

3.7 Disaster Areas

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

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

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

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

See LENDZ full Loan Eligibility Guidelines for additional specifics on Disaster Areas or FNMA Guidelines.

3.8 Declining Values

Properties in which the appraiser is reporting a declining trend in values for the subject’s market area are limited to a maximum 75% CLTV on primary and 2nd homes, 70% CLTV on non-owner.

3.9 Condominiums

Fannie Mae eligible condominium projects allowed.

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

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

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

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

Section 4.0 Transaction Types

4.1 Eligible Transactions

- Purchase
- Cash-out

4.1.1 Cash-out Seasoning

Properties owned for 6 months or greater, no restrictions. Properties owned less than 6 months are ineligible.

4.1.2 Stand-Alone Cash-out

CES stand-alone loans are available for cash-out on Primary, Second Home or investor property. A letter of explanation regarding the use of loan funds must be provided for cash-out refinance transactions.

4.1.3 Prior Refinance Seasoning

Any previous cash-out refinance transaction, either the 1st or a 2nd lien, within the prior six (6) months is not eligible.

4.1.4 Piggy-Back Purchase

Equity Solutions can be combined with a new 1st mortgage for the purchase of a Primary, Second Home or investor property.

When the product is combined with a new 1st mortgage in a purchase transaction, the required income and asset documentation will follow the AUS Recommendations and/or the 1st mortgage loan approval.

The following credit requirements will default to the AUS Recommendation and/or the 1st loan approval:

- Housing history limit of 0x30x12 can be waived if allowed by 1st loan approval.
- FTHB overlays can be waived if allowed by 1st loan approval.
- Minimum tradelines requirements are waived when the 1st lien has an AUS Approve/Eligible or Approve/Ineligible Recommendation.

Lendz Guidelines and overlays apply with an AUS “Out of Scope” finding.

A copy of the appraisal and original pictures and any secondary valuation (if applicable) used for the 1st mortgage is required for the file. Appraisal waivers not accepted.

4.2 Non-Arm’s Length

Non-arm’s length transactions ineligible.

Section 5.0 Borrower Eligibility and Requirements

Refer to Fannie Mae guidelines for all definitions of eligibility status.

5.1 Fraud Report and Background Check

All loans must include a third-party fraud detection report for all borrowers. Report findings must cover standard areas of quality control including, but not limited to: borrower validation,

social security number verification, criminal records, and property information (subject property and other real estate owned). All high-level alerts on the report must be addressed by the underwriter. If the underwriter cannot electronically access the fraud report to clear high-level alerts within the fraud provider's system, an Underwriter's Certification from the underwriter is acceptable. The Certification must address each individual high alert and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the underwriter's underwriting staff or operations management personnel.

5.2 Non-Occupant Co-Borrowers

Non-Occupant co-borrowers are ineligible.

5.3 First Time Homebuyers

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

For Piggyback loans, a First Time Home Buyer's housing history defaults to the 1st lien requirements.

5.4 Residency

5.4.1 U.S. Citizen

Eligible without guideline restrictions.

See LENDZ full Loan Eligibility Guidelines for specifics on:

- Permanent Resident Alien
- Non-Permanent Resident Aliens

5.4.2 Ineligible Borrowers

The following borrowers are ineligible:

- Irrevocable Trust
- Land Trust
- Individual possessing diplomatic immunity or otherwise excluded from US jurisdiction
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.
- Foreign Nationals.
- Borrowers without a valid Social Security Number.
- Borrowers who are party to a lawsuit

Section 6.0 Credit

6.1 Credit Report

A credit report is required for every borrower. All applicants must have a valid SSI number. Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility for Lendz Financial loan purchase.

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

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

6.2 Loan Integrity and Fraud Check

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

6.3 Credit Inquiries

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

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

6.4 Credit Report Update

The underwriter should confirm there are no new borrower debt obligations. A gap credit report or soft pull is required if Note date is greater than 30 days after the date of the credit report relied upon for underwriting. The gap credit report or soft pull is to be dated within 15 days of the Note date.

When a gap report or soft pull is required, it becomes part of the Mortgage File and all payments/balances and DTI are to be updated.

6.5 Housing History

Borrowers must have satisfactory consecutive 12-month mortgage and/or rent payment history in the three (3) years prior to loan application. All files must be documented with one of the following:

- 12-month mortgage history showing on credit report
- VOR from management company, or from private landlord, along with 12 months cancelled checks or bank statements.
- VOM from non-reporting lender, along with 12 months cancelled checks or bank statements

6.6 Consumer Credit

6.6.1 Consumer Credit History

Applicants with current credit delinquencies are ineligible.

6.6.2 Consumer Credit Charge-offs and Collections

Open charge-offs or collections < \$1,000 per occurrence are acceptable. Open medical collections < \$1,000 per occurrence are acceptable.

6.6.3 Consumer Credit Counseling Services

Borrowers enrolled in credit counseling are ineligible.

6.6.4 Judgment or Liens

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

6.6.5 Income Tax Liens

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

6.7 Credit Event Seasoning

No foreclosure actions (NOI, NOD), short-sale, deed in lieu, bankruptcies in last 48 months.
No multiple credit/housing events (FC, BK, SS/DIL) in the last seven (7) years.

6.8 Credit Score

The Representative Credit Score is to be used for the Credit Decision. A valid score requires one (1) score from at least two (2) of the following agencies: Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these agencies are acceptable.

A borrowers' representative credit score is the lower of two (2) scores or the middle of three (3) scores.

For loans with multiple borrowers:

The occupying borrower with the highest income is the primary borrower and their representative credit score is to be used. When borrowers are self-employed and have equal ownership of a business, the lowest representative score of all borrowers is to be used.

Minimum credit score for co-borrowers is 500.

6.9 Standard Tradeline Requirements

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

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

On Primary residence only, borrowers who do not have the minimum tradelines are acceptable with a current mortgage history on their credit report reporting 0x30x12 (no private party mortgages).

Valid tradelines have the below characteristics:

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

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

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

On piggy-back loans, minimum tradelines are waived when the 1st lien has an AUS with Approve/Eligible or Approve/Ineligible Recommendation.

6.10 Obligations / Liabilities not appearing on Credit Report

6.10.1 Housing and Mortgage Related Obligations

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

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

- Principal and Interest
- Hazard and flood and insurance premiums
- Real Estate Taxes
- Special Assessments
- Association Dues
- Any subordinate financing payments.
- Premiums and similar charges that are required by the creditor (i.e., mortgage insurance)

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

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

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

Section 7.0 Assets

7.1 Document Options

For purchase files, documentation of sufficient funds from acceptable sources for down payment, closing costs, prepaid items, debt payoff are required and follow 1st lien approval when applicable. FNMA guidelines used to verify funds. All documentation to follow AUS requirements when applicable.

Section 8.0 Income Documentation

8.1 Income Analysis

For stand-alone loans, the income documentation and calculation per FNMA guides with 2 years verification unless otherwise noted by the program document requirements.

For Piggy-back loans, the income documentation and calculation follow 1st lien approval.

8.1.1 Income Worksheet

Stand-alone loans using bank statement program must include Seller's income calculations, or Lendz Financial's income calculation worksheet detailing income calculations.

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

8.1.2 Employment and Income Verification

For stand-alone loans, the most recent two (2) years employment is required to be documented and verified for all income/documentation types unless otherwise noted by

specific program requirements.

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

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

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

For piggy-back loans, documentation to follow 1st lien approval.

8.2 Debt to Income Ratio / DTI

Standard Debt-to-Income (“DTI”) maximums as per Matrix. See Section 2.4 for limits to DTI on loans with Interest Only First Liens.

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

8.3 Documentation Options

For stand-alone loans, full income documentation for wage earners and self-employed borrowers. Bank statement documentation for self-employed borrowers.

For piggy-back loans, follow 1st lien documentation requirements. Documentation used for the CES must be the same as used for the 1st lien.

8.4 Full Income Documentation

8.4.1 Full Doc for Stand-Alone

Self-employed borrowers:

- 1- or 2-years tax returns (business and personal) including all schedules.
- Current YTD P&L (borrower prepared ok), or 3 months bank statements.
- Qualifying income based on tax returns. P&L or bank statement to support tax return income.
- Tax transcripts.

W-2 borrowers:

- W-2s for most recent 1 or 2-years and 30 day most recent paystubs.
- W-2 transcripts.

Other Requirements:

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

Other Miscellaneous Income:

- Treatment of miscellaneous income sources follows FNMA guidelines.

8.4.2 Full Doc for Piggy-Back

- Documentation requirements to follow 1st lien requirements.

8.5 Alternative Income Documentation: 12- or 24-months Bank Statements

8.5.1 Alt-Doc: 12- or 24-months Bank Statements

For self-employed borrowers. Bank statements (personal and/or business) may be used as an alternative to tax returns to document a self-employed borrower's income.

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

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

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

8.5.2 Alt-Doc: Bank Statement Restrictions

Excessive NSF's on the bank statements may cause the loan to be ineligible. Business bank statements must be operating account(s) reflecting normal business expenses.

8.5.3 Alt-Doc: Bank Statement Documentation

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

1099 Contractor

- A borrower who is a "1099 contractor" may be considered self-employed for this program with confirmation from a CPA that the borrower is a 1099 contractor and files Schedule C or Schedule E with the IRS (personal tax returns). Borrower cannot have ownership of 1099 Payor's business.

See LENDZ full Loan Eligibility Guidelines for other income specifics.

8.5.4 Alt-Doc: Bank Statement Income Analysis

Bank statements are used to calculate and show consistency of income for the self-employed borrower.

When using 12 or 24 months of bank statements, no P&L is required.

Personal & Business Bank Statements Combined

- If personal and business bank activity are combined in one bank account, borrower is to provide the most recent 24- or 12-months consecutive bank statements from the same account.
- The bank statements are analyzed per Business Bank Statement Analysis guidance in LENDZ full Loan Eligibility Guidelines to determine qualifying income.
- **Standard expense factor applies; 50% expense factor.**
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than standard expense factor), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied. PTIN acceptable if documented as

employed by a 3rd party tax preparation service.

- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflects higher expenses.
- **The minimum expense factor with CPA letter or P&L is 20%.**
 - When a CPA or tax preparer produced statement is provided, apply the stated expense factor to calculate the qualifying income (subject to the minimum expense factors). Provide either of the following:
 - A CPA/CTEC/EA produced a written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation ([Exhibit G: Sample of CPA Letter](#)); or,
 - A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
 - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Personal & Business Bank Statements Separated

- If the borrower maintains separate bank accounts for personal and business, only personal bank statements are used for qualifying.
- The borrower is to provide the most recent 24 or 12 months consecutive personal bank statements and two (2) months business bank statements (to support the borrower does maintain separate accounts, and to show business cash flows in order to utilize 100% of business-related deposits in personal account).
- The deposits are analyzed and averaged to determine monthly income.
 - No expense factor
 - Deposits to a personal account from sources other than self-employment is not to be included.
- When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.

Business Bank Statements Only

- If only using business bank statements, borrower is to provide the most recent 24- or 12-months consecutive business bank statements.
- The bank statements are analyzed per LENDZ full Loan Eligibility Guidelines.
- **Standard expense factor applies; 50% expense factor.**
- If the type of business operates more efficiently or typically has a materially different expense factor (lower than 50%), then the expense factor per either a CPA/CTEC/EA letter or P&L may be applied. PTIN acceptable if documented as employed by a 3rd party tax preparation service.
- The underwriter may use an expense factor higher than the standard 50% when the analysis of the bank statements reflects higher expenses.
- **The minimum expense factor with CPA letter or P&L is 20%.**
 - When a CPA or tax preparer produces is provided, apply the stated expense factor to calculate the qualifying income. Provide either of the following:
 - A CPA/CTEC/EA produced a written statement/letter specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such

statement shall not include unacceptable disclaimer or exculpatory language regarding its preparation ([Exhibit G: Sample of CPA Letter](#)); or,

- A CPA/CTEC/EA produced Profit and Loss (P&L) statement that has been reviewed by the CPA/CTEC/EA, the CPA/CTEC/EA states they have reviewed the P&L in writing, and the P&L and accompanying statement do not have unacceptable disclaimer or exculpatory language regarding its preparation.
 - The expense factor per the P&L or CPA/CTEC/EA produced statement must be reasonable. The annual deposits on the bank statements must be at least 75% of the gross receipts per the P&L.

The bank statements should show a trend of ending balances that are stable over the 24- or 12-month period.

- Large deposits inconsistent with history must be documented as business income.
- Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).

See LENDZ full Loan Eligibility Guidelines for Bank Statement Income Analysis Guidance.

8.6 Asset Depletion

On stand-alone loans, Asset depletion can be used to augment qualifying income on Full Income and Bank Statement Documentation files. Asset Depletion cannot be used as a stand-alone income documentation type.

Allowable and documented assets are divided by 84 months to determine the amount added to qualifying income.

- Document each asset with statements covering six (6) months.

On Piggy-back loans, use of asset depletion as qualifying income must follow 1st lien requirements and calculations if applicable. Asset depletion cannot be used if not included in 1st lien qualifying income.

8.7 Alt-Doc 1099

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

8.7.1 Alt-Doc 1099 Restrictions

Borrower cannot have any ownership interest in the company(s) providing 1099 income.

8.7.2 Alt-Doc 1099 Requirements and Documentation

The following is required:

- Most recent 1-year IRS Form 1099(s) from employer(s). The borrower must have 2-year history of 1099 employment.
- Current paystub or bank statement deposit for each 1099 source utilized for qualification (e.g. if borrower provided 1099 forms from five (5) separate sources, then a separate paystub/bank statement deposit must be provided from each of the five (5) 1099 sources to support current receipt)
- Third party documentation (CPA/CTEC/EA) supporting a 2-year employment history when 1-year 1099 used.
- Tax transcripts are required for each 1099 provided
- $1099 \text{ income} \text{ minus } 10\% \text{ expense factor} / 12 \text{ months} = \text{Qualifying Income.}$
- 1099 Income that is not supported by documentation of current receipt cannot be used

for qualification

8.8 Alternative Income Documentation WVOE

8.8.1 Alt-Doc WVOE

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

8.8.2 Alt-Doc WVOE Restrictions

See Equity Solutions matrix for acceptable credit, max CLTV, loan amount, combined lien amount and DTI for the transaction.

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

8.8.3 Alt-Doc WVOE Requirements and Documentation

- Acceptable documentation forms
 - FNMA Form 1005 plus 2 months personal bank statements
 - Equifax (The Work Number)
 - Finicity (TXVerify)
 - Any other acceptable online income data vendor

Form 1005 must be fully completed (current gross pay, YTD earnings, past 2 years earnings) by an authorized company representative (Owner, Officer, HR). When Form 1005 is provided as specified above, 2 months personal bank statements supporting WVOE employment wages must be provided.

8.9 Alternative Income Documentation P&L Only

8.9.1 Alt-Doc P&L Only

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

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

No 4506-C/tax transcripts/Tax Returns

8.9.2 Alt-Doc P&L Only Restrictions

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

- **Service Business** – Offers services such as Accounting, Consulting, Counseling, Financial Planning, Insurance, and Therapy.
- **Product Business** – Sells goods such as Contracting or Construction, Food Services, Manufacturing, Restaurant, Retail.

8.9.3 Alt-Doc P&L Only Requirements and Documentation

All of the following is required:

- Business license for the past 2 years.
- A signed letter from the CPA, CTEC (CA Tax Education Council) or EA (Enrolled Agent) on their business letterhead showing address, phone number, and license number is required with the following information:
 - CPA/CTEC/EA confirms they have prepared the most recent year's business tax return filing; and,
 - The business name, borrower's name, and percentage of business ownership by the borrower.
- CPA/CTEC/EA signed/prepared Profit and Loss Statement(s) covering the most recent 12-month period.
 - PTINs are not acceptable to sign/prepare P&L statements.
- Income from co-borrowers who are W2 wage earners is to be documented with the most recent W2 and paystub.

Section 9.0 Senior Lien Documentation Requirements

Stand-Alone CES:

- Current (within 60 days) first mortgage statement showing,
 - Current principal balance.
 - Fully amortized.
 - Term.
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.

Piggy-Back 2nd:

- Follow 1st lien income requirements.
- 1st mortgage approval reflecting 2nd.
- DU/LP Approve/Eligible, or LP Accept or Approve/Accept/Ineligible due to loan size or non-conforming 1st liens (if applicable).
- Purchase agreement (if applicable).
- HOA statement (if applicable).
- HOI, flood insurance (if applicable), flood cert.
- Closing instructions reflecting 2nd.