Contents

1.0. Programs

1.1 Overview

The Lendz Financial Series 7 program guidelines are structured to guide towards making common sense lending decisions on loans to borrowers who may have limited access to credit. These borrower's situations generally require the underwriter to consider alternative forms of documenting income and/or compensating factors which offset risk indicated by a recent credit event or elevated debt-to-income ratio. The borrower's ability to repay must be proven in all instances.

Lendz Financial has a zero-tolerance policy for fraud. Lendz Financial follows the current established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, Verification of Assets, Verbal Verifications of Employment, processing of 4506-C(Ts), Fraud Guard, etc.). Loans containing misrepresentations will be immediately declined and forwarded to our Legal/QC Team for further review/action(s).

Programs and terms are subject to change. Refer to matrix and rate sheet for currently available loan terms.

1.2 Underwriting

The Underwriter is required to perform a manual underwrite of the credit file and document the file based upon the criteria contained in this manual. Where this document is silent, please refer to Fannie Mae definitions, documentation and underwriting guidelines.

1.3 Loan Amounts

Refer to the Lendz Financial Series 7 Matrix

1.3.1 Loan Amount >$3.0MM

- FTHB: 24-month income documentation options only; gifts not allowed; payment shock max of 200%
- Gifts: Owner-occupied only, after 10% from borrower's own funds
- Housing History: All information must be verifiable
- Limited Tradelines: Not eligible
- Listed for Sale: Properties listed in the last 6 months not allowed
- Non-Occupants: Not allowed; housing history must be verifiable
- Reserve Waiver: Not allowed, and cash-out to cover reserves not allowed

- Seasoning: 6 months seasoning required on cash-out loans

1.4 Minimum FICO

Refer to the Lendz Financial Series 7 Matrix

1.5 Maximum LTV/CLTV

Refer to the Lendz Financial Series 7 Matrix

1.6 Interested Party Contributions (IPC) (Seller Concessions)

Interested party contributions (IPC) 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 IPCs are present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced below. IPC includes 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 held to the following.

LTV	**Maximum Interest Party Contribution (IPC)**
	TRID (Non-Business Purpose) * Non-TRID (Business Purpose)
>80%	4%
≤80%	6%

1.7 Escrows – Impound Accounts

1.7.1 Owner Occupied Primary Residence/Second Home

Impound accounts must be established for all Loans greater than 90% LTV(CA) & 80% LTV (all other states). Impounds are required on all HPML (higher priced mortgage loans) loans and may never be waived, regardless of LTV.

1.7.2 Investment Properties or Non-TRID Business Purpose Loans

Impound accounts are optional on Investment properties and not required. NOTE: Refer to rate sheet for any costs associated with buyout.

1.8 Secondary Financing

Secondary financing must be institutional. Underwriters must employ reasonable underwriting judgment 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 the line of credit is past its draw period.

Seller Carry Backs are not allowed. Refer to Lendz Financial Matrix for additional restrictions.

1.09 Allowable Age of Credit Documents

Underwriting and borrower credit documents may not be more than 90 days seasoned at the Note Date. The credit report should be dated no more than 120 days prior to the Note Date.

The Appraisal should be dated no more than 120 days prior to the Note Date. After a 120-day period, a re-certification of value is acceptable up to 180-days. After 180-days, a new appraisal report is required.

1.10 Borrower Statement of Occupancy

1.10.1 TRID (Non-Business Purpose)

Borrower must acknowledge the intended purpose of the subject property ("Primary Residence" or "Second Home" or "Investment Property") by completing and signing an occupancy certification form.

1.10.2 Non-TRID (Business Purpose)

Borrower must acknowledge that the loan is a business purpose loan by completing and signing the appropriate sections of the "Borrower Certification of Business Purpose".

1.11 Automatic Payment Authorization (ACH)

It is recommended that the borrower execute an assignable Automatic Debit Payment Agreement (ACH) Form. The ACH form must include the bank routing number, account number, and type of account.

1.12 Borrower Contact Consent Form

To assist the loan servicer in contacting the borrower in a timely manner, Lendz 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.

1.13 Ability To Repay/Qualified Mortgage Rule

1.13.1 TRID (Non-Business Purpose)

Loans may be designated as Non-Qualified or Qualified Loans. Both safe harbor and rebuttable presumption standards apply to these designations. Loans are subject to general ability-to-repay (ATR) standards (12 C.F.R 1023.43(c)) and require the lender to make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. The following eight underwriting factors are considered when making this determination:

I. Current or reasonably expected income or assets
II. Current employment status
III. The monthly payment on the covered transaction
IV. The monthly payment on any simultaneous loan
V. The monthly payment for mortgage-related obligations
VI. Current debt obligations, alimony and child support
VII. The monthly debt-to-income ratio or residual income
VIII. Credit history

1.13.2 Non-TRID (Business Purpose)

Business Purpose Loans are exempt from ATR/QM Restrictions & Rules.

1.14 Interest Credit

Loans closed within the first 7 days of the month may reflect an interest credit to the borrower

1.15 State and Federal High-Cost Loans

State and Federal High-Cost Loans are not allowed. The allowable points and fees threshold is the more restrictive of state law, as applicable, or 5.00%

1.16 Prepayment Penalty

1.16.1 Owner Occupied, Second Homes and Investment Properties Where Cash-Out is Used for Consumer Purpose.

Prepayment penalties are not allowed.

1.16.2 Investment Properties Business Purpose

Prepayment penalties are eligible for investment properties only where permitted by applicable state law and regulations. Prepayment penalties are not allowed on primary residence or second home transactions.

1.17 Properties Listed for Sale

1.17.1 TRID (Non-Business Purpose)

Rate and Term Refinance:

- The property must be delisted at least one day prior to application date

Cash-out Refinance:

- The property must be delisted for at least 180 days (6 Months), measured from the listing expiration date to the new loan application date

1.17.2 Non-TRID (Business Purpose)

Rate and Term Refinance:

- The property must be delisted at least one day prior to application date

Cash-out Refinance (One of the Following)

- The property must be delisted for at least 180 days (6 Months), measured from the listing expiration date to the new loan application date
- Properties delisted for less than 180 days are allowed with the following requirements:
  - Property must be leased with current lease
    - Fully executed lease and receipt of security deposit into borrower’s account to be provided
  - Three (3) months reserves required, cash out proceeds cannot be used as reserves
  - Minimum one year prepayment penalty
  - Property must be delisted at least thirty days prior to the application date
  - Value is based on the lower of the lowest list price (within the last 180 days) or appraised value. Increased value due to documented major renovations completed in the last 180 days will be reviewed on an exception basis.
  - Maximum LTV is the lower of 70% or program requirement

1.18 Assumability

Adjustable-Rate Notes may be assumable based upon the Note. In general, Fannie Mae Notes contain an assumable clause. If the Note shows an assumable clause, the verbiage in the Note and Closing Disclosure must match.

Fixed-Rate Notes are not assumable.

1.19 Housing Counseling

All borrowers who are paying off an existing reverse mortgage with a new first (forward) mortgage must complete a homeownership education course provided by a HUD-approved agency. Proof of course completion is required prior to closing.

1.20 Property Insurance

1.20.1 Coverage Requirements

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 damages caused by aircraft, vehicle, or explosion.

Policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable.

Borrowers may not obtain 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.

Additional insurance requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement. Please refer to Fannie Mae Selling Guide B7-03-02 for more detailed information.

For insurance not addressed in this section, such as condo, walls-in, etc., defer to Fannie Mae requirement Section B.7-3 Property and Flood Insurance for requirements for property and flood insurance, including coverage types, amounts and evidence.

The insurance coverage must reflect one of the following:

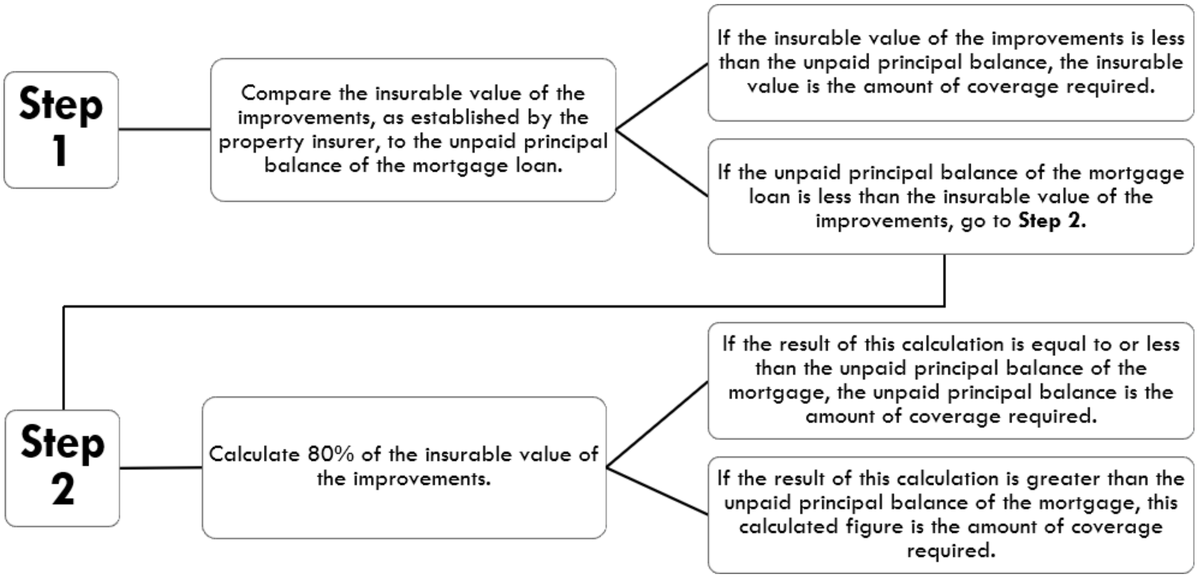
- 100% of the insurable value of the improvements, as established by the property insurer; or
- Determining the Amount of Required Property Insurance

The following table describes how to calculate the amount of required property insurance coverage:

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

<u>Examples</u>

Category	PROPERTY A	PROPERTY B	PROPERTY C
Insurable Value	$90,000	$100,000	$100,000
Unpaid Principal Balance	$95,000	$ 90,000	$ 75,000
80% Insurable Value	—	$ 80,000	$ 80,000
Required Coverage	$90,000	$ 90,000	$ 80,000
Calculation Method	Step 1A	Step 2A	Step 2B



2.0 PROPERTY

2.1 APPRAISAL REQUIREMENTS

Lendz Financial may, at its discretion, examine all valuation reports, including review products, to verify the accuracy of the subject property's value. If the value is deemed unsupported, Lendz Financial reserves the right to adopt a lower value determined through an internal desk review of the appraisal(s) and review product.

Full Interior/ Exterior appraisal required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 must be used. The appraisal must be ordered through an Appraisal Management Company that complies with Appraiser Independence Requirements (AIR) or, for approved lenders, through their AIR compliant appraiser panel management process. See your Correspondent Sales Team for panel management approval requirements. The licensed appraiser must complete an interior inspection of the subject property.

The Appraisal should be dated no more than 120 days prior to the Note Date. After a 120-day period, a re-certification of value is acceptable up to 180-days. After 180-days, a new appraisal report is required.

- Not eligible for approval:
  - Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset (UAD) guidelines

    - Lendz Financial will consider if issue has been corrected prior to loan funding with proper documentation

- All properties must:
  - Be improved real property
  - Be accessible and available for year-around residential use
  - Represent the highest and best use of the property
  - Not contain any health and safety issues

2.1.1 SECOND APPRAISAL

Second Appraisal is required when:

- Loan amount exceeds $1,500,000
  - Appraisals must be ordered through an AIR compliant Appraisal Management Company (AMC)
  - ARR (Appraisal Risk Review) is required on the lower valued appraisal regardless of the SSR score
- The transaction is an HPML (Higher-Priced Mortgage Loan) and a flip as defined in the Property Flipping – HPML Appraisal Rule section of this guide
- As required under the Appraisal Review Products section of this guide

When a second appraisal is required, the "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different Appraisal Management Company (AMC)/appraiser than the first appraisal.

Underwriter has discretion to accept differences between the two appraisals, as each appraiser may appraise a property differently, for example one appraiser may call a room an office when the other appraiser may call the same room a bedroom or one appraisal may state that there is 1000 sq ft. and the other appraiser measured out 980 sq ft. The Underwriter needs to assure that the qualifying value used to calculate the final LTV/CLTV is supported.

2.1.2 TRANSFER OF APPRAISAL

To transfer an appraisal, a transfer letter must be executed by the Lender that ordered the appraisal and must be signed by an authorized member of the company. The letter should include the following:

- Prepared on the Letterhead of the original Lender
- Current Date
- Borrower Name
- Property Address
- Statement that the appraisal was prepared in compliance of Appraisal Independence Requirements
- Signed by an Authorized Representative
- Where more than one appraisal is required at least one appraisal must be ordered from an AIR compliant Appraisal Management Company (AMC)

2.2 APPRAISAL REVIEW REQUIREMENTS

2.2.1 APPRAISAL REVIEW PRODUCTS

An appraisal review product is required on every loan file for loan amounts ≤ $1,500,000 unless the SSR Report shows a Fannie Mae Collateral Underwriter Score of 2.5 or less. Refer to Second Appraisal for loan amounts > $1,500,000 appraisal review product requirements. The options for review products include the following:

Submission Summary Report (SSR)

- Not available for multi-unit properties

Collateral Underwriter

- The appraisal report must be submitted to the UCDP Application and SSR reports should be generated
- Scoring:
  - If a CU score is present (will not show for units) and it is at 2.5 or below we may proceed without an enhanced desk review product unless required by underwriting
  - If the CU score is above 2.5, there is no score or the property is a 2-4 Unit, an enhanced desk review is required

Enhanced Desk Review

- Enhanced desk review products:
  - ARR (Appraisal Risk Review) from ProTeck/Stewart
  - CCA (Consolidated Collateral Analysis) from Consolidated Analytics

    - CDA from Collateral Desktop Analysis from Clear Capital

- A field review, drive by appraisal (Form number 2055) or second appraisal from an AIR compliant AMC is acceptable
- The field review or 2nd appraisal may not be from the same company or appraiser as the original report

If the Appraisal Review Product reflects a value more than 10% below the appraised value or cannot provide a validation, the next option in the review waterfall must be followed:

- The next option is either a field review or second appraisal, and both must be from a different appraisal company and appraiser than the original appraisal; or
- If variance is between 10.01% to 15%, using the lower value without an additional report, is acceptable

2.2.2 MINIMUM SQUARE FOOTAGE

Refer to Lendz Financial Matrix for FICO, Grades, LTVs, and all other restrictions.

2.2.3 ACCESSORY DWELLING UNITS

An Accessory Dwelling Unit (ADU) is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. ADUs must be subordinate in size to the subject property, must be on the same parcel and may be either site constructed or modular. When giving value if modular, the dwelling must be on a permanent foundation.

When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is defined as a one-unit property with an ADU or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the value or marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged-settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.

Examples of ADUs Include (but are not limited to)

- Living area over a garage
- Living area in a basement, it must have outside access
- Small addition to the primary dwelling with outside access
- A modular home (legally classified as real property)

Zoning for an ADU:

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender/borrower confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property
- The illegal use conforms to the subject neighborhood and to the market
- The property is appraised based upon its current use
- The appraisal report states that the improvements represent a use that does not comply with zoning (“illegal” use)

The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged, settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

Calculating Income from ADU:

See Income Section for income qualifying on ADU Income.

2.2.4 RURAL PROPERTY

A property could be classified as rural if the following conditions exist:

- The property is classified as rural by the appraiser
- Two of the three comparable properties are more than 5-miles from the subject property
- Less than 25% of the surrounding area is developed

The Underwriter has the discretion to determine if the subject property is a rural property by scrutinizing some of these following characteristics:

- Property is located on a gravel road
- The majority of comparable properties are more than 5 miles from the subject property
- Less than 25% of the surrounding area is developed
- Distance to schools and amenities is greater than 25 miles
- Surrounding area is Forest
- Surrounding area is Agricultural
- Does not have adequate utilities available in service
- Property located in remote, isolated area

2.2.5 PERSONAL PROPERTY

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

2.2.6 ESCROW HOLDBACKS

Escrow holdbacks are not allowed. Any repair or maintenance required per the appraiser must be completed prior to closing.

2.2.7 MIXED USE PROPERTIES

Owner Occupied & Second Home Occupancy

Mixed use properties are allowed per Fannie Mae Guidelines.

(Examples: Business use in addition to residential use, such as property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office):

- The property must be a one-unit dwelling that the borrower occupies as a principal residence or 2nd Home
- The borrower must be both the owner and the operator of the business
- The property must be primarily residential in nature

- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property

The property must meet appraisal requirements for mixed use properties under Fannie Mae Section B4-1.4-07. Appraisal must indicate:

- A detailed description of the mixed-use characteristics of the subject property
- That the mixed use of the property is a legal, permissible use of the property under the local zoning requirements
- Any adverse impact on marketability and market resistance to the commercial use of the property
- Market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made

2.2.8 INVESTMENT MIXED USE PROPERTIES

- Not allowed

2.2.9 PROPERTIES WITH SOLAR PANELS

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

- Borrower owned panels
- Financed solar panels where the panels serve as collateral for the debt separate from any existing mortgage
- Lease agreements/power purchase agreements

Properties with solar panels may be eligible. Due diligence to determine ownership and any financing structure of the subject property's solar panels is needed to determine initially if the property with solar panels is eligible and subsequently correctly underwrite the loan.

Underwriters are to ensure all the following:

- Borrower's credit report is reviewed for solar-related debt and all solar-related documentation provided
- Title report is reviewed to determine if the related debt is reflected in the land records associated with the subject property
- Appraiser has accurate information about the ownership structure of the solar panels

- Appraisal appropriately addresses any impact to the property's value
  - Any contributory value for owned or financed solar panels must be noted in the Improvements Section of the Appraisal Report
- Where solar panels are eligible the property maintains access to an alternate source of electric power that meets community standards
  - If a full appraisal is required, the appraiser is to comment if the property is connected to a traditional electrical power source.
  - If a full appraisal is not required, other alternative documentation, such as an electric bill, evidencing the property is connected to a traditional electrical power source to be provided

If insufficient documentation is not available and the ownership status is unclear, no value for the panels may be attributed to the property value on the appraisal unless a UCC "personal property" search is provided and confirms the solar panels are not claimed as collateral by any non-mortgage lender.

A 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.

** A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted by each state in which the related real property is located. It covers property that is, or will be, affixed to improvements such as real property. It contains both a description of the collateral that is, or is to be, affixed to that property, and a description of the 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. This 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.*

The sections below identify the additional specific requirements that must be followed based on the ownership and financing structure.

The sections below identify the additional specific requirements that must be followed based on the ownership and financing structure.

<u>Free and Clear or Included in the Home Purchase</u>

Solar panels that were a cash purchase and owned free and clear without outstanding debt or were included in the home purchase price and secured by the existing first mortgage.

- Properties with solar panels that meet the above definition are eligible and standard requirements must be followed (appraisal, insurance and title).
- Appraiser to include the solar panels in the value of the property (based on standard appraisal requirements)

Financed and Collateralized (UCC on Title)

Solar panels were purchased with financing. The solar panels are collateral for the separate debt used to purchase the panels and a UCC fixtured filing has been filed for the panel as evidenced on the title report.

Properties with solar panels that meet the above definition are eligible when complying with the following requirements:

- Credit report, title report, appraisal (if applicable) and related promissory note and security agreement that reflect the terms of the secure loan to be obtained and reviewed
- Appraiser to include the solar panels in the value of the property (based on standard appraisal requirements) as long as the documents provided evidence the panels cannot be repossessed for default on the financing terms,
- Debt obligation to be included in the debt-to-income ratio (DTI) calculation and LTV/CLTV because a UCC fixture filing is of record
- The UCC filing must be subordinated with one of the following:
  - Subordination agreement
  - UCC termination
    - Debt obligation must be included in the DTI and LTV/CLTV unless evidenced the debt has been paid off in full (UCC termination is not evidence the debt has been paid in full.)
- CLTA endorsement 150.06 is not allowed in lieu of a subordination agreement or UCC termination

Financed and Collateralized (UCC not on Title)

The solar panels were purchased with financing and treated as personal property not affixed to the home. The UCC filing does not appear on the title report.

Properties with solar panels that meet the above definition are eligible when complying with the following requirements:

- Review documentation such as the credit report, title report, UCC financing statement, related promissory note or security agreement to confirm the terms of the secured loan
- Debt obligation to be included in the debt-to-income (DTI) calculation

- Confirm the appraiser did not include contributory value of the solar panels toward the appraised value
- The loan secured by the solar panels is not to be included in the LTV/CLTV ratio
- If a previously filed UCC was temporarily removed from title through a UCC termination, evidence must be provided that the UCC was paid in full
  - If the financed balance is not paid it full it must be included in the LTV/CLTV

Note: a Notice of Independent Solar Energy Producer Contract on title is not to be treated as a UCC fixture filing

Financed with a PACE loan

Solar panels financed with a PACE loan paid through an assessment in their annual property tax bill.

- Properties with solar panels financed with a PACE loan are ineligible unless paid in full at or prior to closing
- If the property tax statement indicates a PACE loan the outstanding loan must be paid in full prior to or at closing
  - Proceeds from the second lien may be used to pay off the existing PACE loan

Note: In some cases, PACE loans are also referred to as HERO loans and must adhere to PACE loan requirements.

Leased or Covered by a Power Purchase Agreement

Solar panels are leased from or owned by a third party under a power purchase agreement or similar lease arrangement. Properties with solar panels that meet the above definition are eligible when complying with the following requirements:

- Lease or power purchase agreement to be obtained and reviewed

Monthly payment must be included in the debt-to-income (DTI) calculation unless the lease/agreement is structured

2.3 INELIGIBLE PROPERTY TYPES

- A-Frame Homes
- Agricultural properties, including farms, ranches, and orchards
  - Properties zoned agricultural/residential are eligible as long as not being used as agricultural

- Assisted living facilities with medical services or other types of assisted care facilities
- Boarding House or Bed & Breakfast
- Commercial Properties
- Condominium
- Condominium hotels (condotels)
- Co-op/Timeshare Hotels
- Cooperative Share
- Dome or Geodesic Homes
- Fractional Ownership
- Hawaii properties located in lava zones 1 and/or 2
- Homes on Native American Land (Reservations)
- Hotel or motel conversions (or conversions of other similar transient properties)
- Houseboats
- Log homes
- Manufactured or Mobile Homes
- Properties not readily accessible by roads that meet local standards
- Properties not suitable for year-round occupancy regardless of location
- Properties offering individual room leases such as Single Room Occupancy (SRO), PadSplit, etc.
- Properties with zoning violations
- Stilt homes which are defined as dwellings constructed on elevated platforms built above the ground or water. The foundation typically consists of series of columns or long pillars made up brick, stone, wood, or steel that support the weight of the home.

Vacant land or land development properties

2.4 PROPERTY LIMITATIONS

- Log façade homes considered with like comparables and upper management review

2.5 ACREAGE LIMITATIONS

- Maximum 25 acres
- Truncating not allowed

2.6 PROPERTY FLIPPING – HPML APPRAISAL RULE

For properties purchased by the seller that meet the above, the second appraisal it to be completed by an AIR compliant AMC is required. The second appraisal must be provided to the borrower in accordance with HPML requirements.

- Second appraisal must be dated prior to the closing date
- 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.) may be required by the underwriter if the appraisal is deemed deficient
- The borrower cannot be charged for the cost of the additional appraisal

2.7 TITLE VESTING & OWNERSHIP

2.7.1 OWNER OCCUPIED & SECOND HOME

Ownership must be fee simple, except as noted in the LEASEHOLD PROPERTIES section.

On a refinance, at time of application, both the application and the preliminary title report must reflect at least one of either the borrower(s) or entity that plans to take title at closing. If a new spouse is being added, it can be done at the time of closing.

If the property is vested in the name of the entity (Corporation, LLC, or Partnership), the borrower must be 100% owner of the entity if vesting is changing to borrower's name through the loan transaction. Only investment property loans can be vested in a Corporation or LLC. Not available for leasehold condominiums.

Acceptable Forms of Vesting

- Individuals
- Inter-Vivos Revocable Trust

- Joint tenants
- Tenants in common

Land trusts and IRAs are not eligible.

2.7.2 INVESTMENT PROPERTIES

Ownership must be fee simple, except as noted in the LEASEHOLD PROPERTIES section.

On a refinance, at time of application, both the application and the preliminary title report must reflect at least one of either the borrower(s) or entity which plans to take title at closing. If a new spouse is being added, it can be done at the time of closing.

If the property is vested in the name of the entity (LLC, Corporation or Partnership), borrower must be 100% owner of the entity if vesting is changing to borrower's name through the loan transaction.

Acceptable Forms of Vesting

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

2.7.3 LIMITED LIABILITY COMPANY, PARTNERSHIP, CORPORATION

LLCs, Partnerships, Corporations, and S Corporations collectively referred to as an Entity. Requirements for Vesting In an Entity

- Purpose and activities are limited to ownership and management of real property
- Layered Entities are not permitted
- Non-TRID Business Purpose Loans only
- Entity must be domiciled in the United States
- Any business structure is limited to a maximum of 4 owners or members
- All members, partners, or shareholders of the Entity, as the case may be, (each, a "Member," and up to a maximum of 4 members per Entity) must provide personal guarantees (Exhibit C) of the obligations of the Entity in a form satisfactory to LENDZ
    - Personal guarantee requirement may be waived for member(s) representing aggregate ownership of 15% or less

- Personal guarantor(s) must:
  - Have authority to execute loan documents on behalf of the entity
- All borrower member(s) must be physically present at signing/closing. Power of Attorney (POA) is not allowed.
- Each Entity Member providing a personal guarantee must complete a credit application indicating clearly that such document is being provided in the capacity of guarantor
- The application of each Member and such person's credit score and creditworthiness will also be used to determine qualification. The decision score of the member with the highest percentage of ownership is used. If all members have equal share of ownership, the lowest decision score among the members is used. All members must have a minimum credit score of 600.
- No brokers or lenders 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
- All Member(s)/Officer(s) of the Entity must receive notice of the loan and acknowledge its terms prior to closing including members who are not providing a personal guarantee
- <u>The following entity documentation must be provided:</u>
  - Corporation
    - Certificate/Articles of Incorporation (filed)
    - Bylaws
    - Evidence of active/good standing for the state in which the entity was formed
    - Tax Identification Number
    - Borrowing Resolution/Corporate Resolution granting authority of signer to enter the loan obligation
  - Limited Liability Company (LLC)
    - Entity Articles of Organization, Partnership, and Operating Agreements, if any
    - Evidence of active/good standing for the state in which the entity was formed
    - Tax Identification Number
    - Certificate of Authorization for the person executing all documents on behalf of the Entity
  - Partnership

- Partnership Agreement
- Partnership Certificate, if filed
- Evidence of active/good standing for the state in which the entity was formed
- Tax Identification Number
- Limited partner consents (where required by partnership agreement)

- Documents must be completed and signed as follows:
  - Loan Application (1003)
    - Completed for each Individual
    - Section labeled "Title will be held in what Name(s)" should be completed with only the Corporation/LLC/Partnership name.
    - Signed by Individuals
  - Disclosures (GFE, TIL, Notice of Intent to Proceed, Servicing Disclosure, etc.)
    - Completed and signed by Individual(s)
  - HUD-1
    - Completed and signed by Individual(s) Other Closing Documents (Final TIL, Borrower Certification of Business Purpose, etc.)
    - Completed and signed by Authorized Member(s)
  - Personal Guarantee
    - Completed and signed by Individual(s)
  - Signed (at least) by Authorized Signer for the Entity who must also be a personal guarantor
    - Note, Deed of Trust/Mortgage, and all Riders

2.7.4 EXAMPLES – SIGNATURE REQUIREMENTS

[Authorized Signatory] may be replaced by other label as specified in the Member Consent (e.g., Managing Member, Member, etc.).

Sample 1

Borrower: JJ Investors, LLC and James Johnson Single Member of LLC: James Johnson

Note, Security Instrument & all

Riders: Signature Block

JJ INVESTORS, LLC a [____] limited liability company

James Johnson

By: James Johnson

Title: [Authorized Signatory]

Sample 2

Borrower: JJ Investors, LLC, James Johnson, and Jane Nelson 2 Members of LLC: James Johnson and Jane Nelson
Both Members are Authorized Signatories of LLC

Note, Security Instrument & all

Riders: Signature Block

JJ INVESTORS, LLC a [____] limited liability company

James Johnson,

By: James Johnson

Title: [Authorized Signatory]

and

JJ INVESTORS, LLC a [____] limited liability company

Jane Nelson

By: Jane Nelson

Title: [Authorized Signatory]

2.7.5 INTER VIVOS REVOCABLE TRUST

An Inter Vivos revocable trust is permitted when the trust has an ownership interest in the subject property for all transaction types. The following requirements should be followed. Not all requirements may be addressed here; Fannie Mae requirements should be followed where these guides are 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 2 or more); or
- 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:

- The trust was validly created and is duly existing under applicable law
- 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

  In lieu of the above, a complete copy of the trust documents certified by the borrower to be accurate, or a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements can be provided in the loan file. The Attorney needs to also verify that the trust has not been revoked, modified, or amended in any manner that would cause the representations to be incorrect.

  If the property is located in the following states, a trust certification is acceptable (The below does not represent the LENDZ approved states list. Please Refer to LENDZ Licensed States list):

Alabama	Arizona	Arkansas	California	Washington
Delaware	District of Columbia	Idaho	Iowa	Wyoming
Kansas	Maine	Michigan	Minnesota	
Missouri	Nebraska	Nevada	New Hampshire	
New Mexico	North Carolina	Ohio	Oregon	
Pennsylvania	South Carolina	South Dakota	Tennessee	
Texas	Utah	Vermont	Virginia	

2.8 LEASEHOLD PROPERTIES

In areas where leasehold properties are commonly accepted and documented via the Appraisal, loans secured by leasehold properties are eligible. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold properties and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy. Leasehold not available on condominiums.

Leaseholds must meet all Fannie Mae eligibility requirements (i.e. the term of the lease).

2.8.1 RESTRICTIONS

- SFR only
- Not allowed on Indian Leased Land

2.9 TEXAS TRANSACTIONS

2.9.1 OWNER OCCUPIED

- Not Allowed

2.9.2 SECOND HOME, INVESTMENT & BUSINESS PURPOSE NON-TRID LOANS

The Texas Constitution only regulates cash-out home equity loans on a primary residence; the TX 50(a)(6) rules do not apply to investment property.

2.10 LIMITATIONS ON FINANCED PROPERTIES/CONCENTRATED RISK

2.10.1 OWNER OCCUPIED & SECOND HOME

- Lendz Financial allows up to 20 financed properties including the subject property. All properties should be covered and included in the DTI calculations (commercial real estate excluded from DTI calculations)
- Lendz Financial's exposure to a single borrower shall not exceed $5,000,000 (not to exceed $10,000,000 in high-cost areas) in current UPB or six (6) properties
- All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property. Reserves are based upon the PITIA of the subject property (ITIA for interest-only loans)
    - Total reserve requirement is not to exceed twelve (12) months
    - Not applicable to DSCR loans
- Refer to Lendz Financial reserve matrix for additional reserve requirements

2.10.2 INVESTMENT & BUSINESS PURPOSE NON-TRID LOANS

- No limit to the number of financed properties per borrower
- Lendz Financial's exposure to a single borrower shall not exceed $5,000,000 (not to exceed $10,000,000 in high-cost areas) in current UPB or six (6) properties
- All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property
    - Reserves are based upon the PITIA of the subject property (ITIA for interest-only loans)
    - Total reserve requirement is not to exceed twelve (12) months
    - Not applicable to DSCR loans
    - Refer to reserves on LENDZ matrix for additional reserve requirements

2.10.3 CONCENTRATED RISK

Further scrutiny is warranted whenever a single borrower or entity is financing three (3) or more investment properties in the same area i.e., development, tract or neighborhood. Form 1007 Single Family Comparable Rent Schedule to support each property has a minimum 1.00

DSCR to be provided. Executed lease agreements, additional assets, and/or additional documentation may be required. Maximum LTV is 70%.

2.11 DISASTER AREAS

The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA web site at https://www.fema.gov/disaster/declarations. 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 should be used to determine if the disaster guidelines should be followed. Where this guidance is silent, please refer to the OCMBC Disaster Area Policy.

Guidelines for disaster areas should be followed for 90 days after the disaster period end date as published by FEMA.

2.11.1 APPRAISALS COMPLETED ON OR BEFORE INCIDENT PERIOD END DATE

A final exterior inspection of the subject property is required.

- The appraiser should indicate if the subject property is in the same condition as the original date of appraisal, is free from any damage and the marketability and value remain the same
- Inspection report must include photographs of the subject property and street view
- Any damage must be repaired and re-inspected prior to closing

2.11.2 APPRAISALS COMPLETED AFTER INCIDENT PERIOD END DATE

- Appraiser must indicate the property was not impacted by the disaster and certify that there has been no change in housing values in the immediate area

2.12 CONDOMINIUMS

Condominiums are not eligible for Lendz Financial Series 7

3.0 TRANSACTION TYPES

3.1 ELIGIBLE TRANSACTIONS

3.1.1 PURCHASE

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

3.1.2 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

- Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property
- 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
- Buying out a co-owner pursuant to an agreement
    - Property must have been owned by current owners for the last 6 months. No recent changes in property or entity (LLC, Partnership or Corporation) ownership allowed
- Paying off an installment land contract executed more than 12 months from the loan application date
- 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
- LTV/CLTV based upon the appraised value

3.1.3 CASH-OUT – OWNER OCCUPIED & SECOND HOME

- A refinance that does not meet the definition of a rate/term transaction
- Meets ownership seasoning requirements of ≥ 6 months
- Prior cash-out transactions over 6 months seasoning are allowed

- Seasoning waived if the lender documents the borrower occupied the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership)
- If the property was owned prior to closing by a Limited Liability Corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted toward meeting the borrower's six (6) month ownership requirement in order to close, ownership must be transferred out of the LLC and into the name of the individual borrower(s)]
- Free and clear properties must verify housing for six (6) months with proof ITIA has been paid on time by borrower
- The payoff of delinquent real estate taxes (60 days or more past due) is considered cash out
- All cash-out transactions must be of benefit to the borrower
- Net Cash-Out (Cash-In-Hand) proceeds can be used for required reserves
- Power of Attorney (POA) is not allowed
- Loans not eligible for cash-out:
    - Properties listed for sale in the past six (6) months
    - A prior cash out transaction in the past six (6) months (except for the below exception)
        - A draw on a HELOC in the past 6 months will not be considered cash out for the 6 month seasoning requirement
        - Eligible only for 24 Months full doc transactions, with a max DTI of 43% with borrower's reserves of at least six (6) months PITIA (cash out cannot be used as reserves); enhanced appraisal review required
- Refer to Lendz Financial Matrix for cash-out limits and other restrictions

Cash-Out Seasoning

Defined as the difference between the Note date of the new loan and prior financing Note date. In lieu of having the Note, the date may be based on when the loan was recorded. If the loan meets seasoning requirements the appraised value will be used to calculate the qualifying LTV/CLTV.

- Properties must be owned for at least six (6) months to be eligible for cash-out programs, except for the above- mentioned for inheritance or divorce/separation or Seasoning Waiver

- An additional occupying borrower may be added under the following circumstances:
  - At least one occupying borrower already on title over six (6) months remains on title and on the new loan transaction
  - The added borrower has been occupying the property for six (6) or more months
- Sole occupying borrower may be added and qualified as the sole borrower under the following circumstances:
  - Verification of occupancy for six (6) or more months, and
  - Verification the borrower has made the mortgage payments directly to the mortgage company (must cover the time on title, minimum of six (6) months, maximum per program guidelines
    - If the home is free & clear, verification the borrower has paid the property taxes directly to the taxing authority is required
    - Must cover the time on title, minimum of six (6) months, maximum per program guidelines
    - If no taxes were due/paid within the prior six (6) months, the loan is ineligible
    - Taxes cannot be paid within 30 days prior to the application date
    - There cannot be any outstanding delinquent taxes

3.1.4 CASH-OUT – INVESTMENT & BUSINESS PURPOSE NON-TRID

- A refinance that does not meet the definition of a rate/term transaction
- A mortgage secured by a property 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
- All cash-out transactions should be of benefit to the borrower
- The borrower(s) must indicate the purpose of the cash-out proceeds. Cash-out proceeds must be for business purposes (Cash-out proceeds for personal use permitted with Full Income Documentation or Bank Statement Income Documentation and must meet TRID and ATR Attestation.)
- Net Cash-Out (Cash-In-Hand) proceeds can be used for required reserves
- Power of Attorney (POA) is not allowed
- Loans not eligible for cash-out:

- Properties listed for sale in the past six months unless requirements in section 1.19 meet (required pre-payment penalty)
- A prior cash-out transaction in the past six months (except for the below exception)
  - A draw on a HELOC in the past 6 months will be considered cash out for this 6 month seasoning requirement
  - Eligible only for 24 Months full doc transactions, with a max DTI of 43% with borrower's reserves of at least 6 Months PITIA (cash out cannot be used as reserves); enhanced appraisal review required

- Refer to Lendz Financial Matrix for cash-out limits

Cash-Out Seasoning

Defined as the difference between the Note date of the new loan and prior financing Note date. In lieu of having the Note, the date may be based on when the loan was recorded. If the seasoning requirements are met the appraised value will used to calculate the qualifying LTV/CLTV.

- Properties must be owned for over six months to be eligible for Cash-Out loan programs, except for the above- mentioned for inheritance or divorce/separation
- Additional borrower(s) may be added under the following circumstances:
  - At least one borrower already on title over 6 months, remains on title, and on the new loan transaction

3.1.5 DEBT CONSOLIDATION PROGRAM - OWNER OCCUPIED

A cash-out transaction meeting the below requirements follows the Rate/Term LTVs on the Lendz Financial Matrix

- Mortgage and non-mortgage debts (including delinquent taxes) are paid off and total monthly revolving and installment debt payments are lowered by at least 10%
- Closing costs are recouped within 60 months
- Cash in hand may not exceed $5,000 or 2% of the loan balance, whichever is lower
- The closing documents must reflect the paid off debts
- Reserves reduced to 1 month PITIA when all above requirements are met
- Investment & Business Purpose Non-TRID Loans Ineligible

3.1.6 DELAYED FINANCING-OWNER OCCUPIED & SECOND HOME

Borrowers who purchased the subject property within the last six (6) months (measured from the date purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all the following requirements are met (Refer to FNMA B2.1.3.03 DELAYED FINANCING EXCEPTION).

Requirements for Delayed Financing

- The Original Purchase Transaction was an arm's-length transaction
- Borrower(s) must meet Fannie Mae's borrower eligibility requirements as described in B.2.2.01 GENERAL BORROWER ELIIBILITY REQUIREMENTS of the FNMA Seller Guide
- The original purchase transaction is documented by a settlement statement, which confirms no mortgage financing was used to obtain the subject property (a recorded Trustee's Deed or similar alternative confirming the amount paid by the Grantee to the Trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at the time of sale)
  - Preliminary title search or report must confirm there are no existing liens on the subject property
- Sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or HELOC on another property)
- If source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds are used to pay off or pay down, as applicable, the loan used to purchase the property
  - Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculations for the refinance transaction
  - Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan
- The new loan amount cannot be more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value)
- All other cash-out refinance eligibility requirements are met (cash-out pricing is applicable; Refer to Lendz Financial Matrix for cash in hand restrictions)

- Delayed Financing NOT available for Foreign National borrowers and Foreign National loan programs

3.1.7 DELAYED FINANCING - INVESTMENT & BUSINESS PURPOSE NON-TRID LOANS

Borrowers who purchased the subject property within the last six (6) months (measured from the date on which purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met. (Refer to FNMA B2-1.3-03 Delayed Financing Exception.)

<u>Requirements for Delayed Financing</u>

- The Original Purchase Transaction was an arm's-length transaction
- For this refinance transaction, the borrower(s) must meet Fannie Mae's borrower eligibility requirements as described in B2-2-01, GENERAL BORROWER ELIGIBILITY REQUIREMENTS of the FNMA seller guide
- The original purchase transaction is documented by a settle statement, which confirms that no mortgage financing was used to obtain the subject property

  A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale

  The Preliminary title search or report must confirm that there are no existing liens on the subject property
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property)
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property
  - Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction
  - Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan
- The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV,

CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value)

- All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable. Refer Lendz Financial Matrix for cash in hand restrictions
- Business Purpose Non-TRID (DSCR) Loans only - Properties unleased/vacant for greater than three (3) months must follow Unleased Property LTV/CLTV Restrictions and Cash in Hand Limit for Vacant Properties. Refer to Lendz Financial Matrix
- Delayed Financing NOT available for Foreign National borrowers and Foreign National loan programs

3.1.8 HEMP FARMING ACT OF 2018

The Hemp Farming Act of 2018 was passed on December 20, 2018 and enacted into law. The law has removed hemp (defined as cannabis with less than 0.3% THC) from schedule 1 controlled substances and makes it an ordinary agricultural commodity.

- The Act has allowed hemp farmers to Refer to USDA and all forms of Government financing for their homes and farms
- The Act has availed hemp farmers and allowed for water rights, federal agricultural grants, and makes the national banking system accessible to farmers and others involved with this industry
- The Act allows for the production of recognized crops, allows for the marketing and sale of the crops, agronomy research, and crop insurance

Lendz Financial will treat any borrowers in hemp production, marketing, and employment that meets federal requirements as eligible for all loan products.

Cannabis/Marijuana businesses are ineligible for financing due to federal restrictions.

3.1.9 LEASE WITH OPTION TO BUY – OWNER OCCUPIED & SECOND HOME

Lease with Option to Buy (also called Lease Option or Lease Option to Purchase) is an agreement to lease a property for a specified period of time at an agreed-upon monthly rent payment, in which a portion of the payments, in excess of market rents, is applied toward the down payment. Once the potential buyer has satisfied the terms of the down payment, he/she may execute the option to purchase the property at the sales price agreed upon in the Leas Option to Purchase Agreement.

<u>Lease Option Stipulations</u>

All Lease Option to Purchase transactions require all of the following:

- All parties to the transaction must execute the agreement
- The agreement must disclose the time period of the option to purchase, amount of earnest money deposit/down payment, and the terms of the monthly rental payments
- The terms of the monthly rental payments must include a specific and reasonable amount (dollar amount or percentage) in excess of the monthly rent payments that will be credited toward the down payment via comparison to fair market rents (Single Family Comparable Rent Schedule Fannie Mae Form 1007)
- Proof of the borrower's earnest money for down payment via a deposit (canceled check)
- Copy of canceled checks (front/back) for the monthly rent payment covering the most recent twelve (12) months

<u>Lease Option LTV Calculation</u>

A Lease Option is always a purchase transaction; therefore, is required to issue a Purchase Loan Estimate (LE) and Closing Disclosure (CD) (versus the Refinance version of these disclosures). Lendz Financial will calculate a Lease Option LTV using the current reconciled market value in lieu of the purchase price.

- The value used for calculating LTV is the lesser of the Purchase Price or Appraised Value if:
    - The borrower's Earnest Money Deposit (EMD) is less than three percent (3%) of the sales price, or
    - The Lease Option Agreement was executed within the last twelve (12) months
- The value for determining the LTV is the current Reconciled Market Value if:
    - The borrower has occupied the subject property for the last twelve (12) months; and
    - The Lease Option Agreement was executed more than twelve (12) months ago; and
    - The borrower has equal to or greater than three percent (3%) of the sales price invested by:
        - EMD/Down Payment, or
        - The borrower provided property improvements with receipts for materials as well as a detailed list of all such improvements and time to complete

<u>Lease Option Restrictions</u>

Lease Option transactions that do not involve an EMD/Down Payment or property improvements including receipt(s) for materials and/or monthly rent in excess of proven market rents are not considered a Lease Option to Purchase and must comply with standard purchase transaction requirements.

Investment & Business Purpose Non-TRID Loans are ineligible.

3.1.10 DEPARTURE RESIDENCE

A departure property is defined as the owner-occupied residence the borrower resided in prior to the purchase of the current owner-occupied residence. Seventy-five percent (75%) of the market rents may be used to offset the PITIA or TIA (if the property is owned free and clear) payment of this property and is determined by form 1007 Market Rent Survey completed by a licensed appraiser. Surplus rents in excess of the PITIA or ITIA payment may be used as income.

One hundred percent (100%) of the rents may be used to offset the PITIA or TIA payment. Surplus rents in excess of the PITIA or TIA may be used as income. Actual rents are documented with both of the following:

- Copy of executed rental agreement; and
- Proof of receipt of security deposit.

Investment & Business Purpose Non-TRID Loans are ineligible.

3.2 NON-ARM’S LENGTH AND INTERESTED PARTY TRANSACTIONS

3.2.1 NON-ARM’S LENGTH TRANSACTION

A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm’s length transactions include family sales, property in an estate, employer/employee sales and flip transactions.

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

A 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 (VOM on the Seller’s mortgage)

3.2.2 INTERESTED PARTY TRANSACTION

A Conflict-of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker,

Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction.

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

3.2.3 ELIGIBLE NON-ARM'S LENGTH AND INTERESTED PARTY TRANSACTIONS

This list of eligible non-arm's length and interested party transactions is for example purposes only and may not include all eligible scenarios. Underwriters must use prudent decision making and close scrutiny when approving loans with these or similar circumstances.

- Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction
  - Commission earned by buyer/borrower may be used for down payment, closing costs, or monthly PITIA reserves
- Seller(s) representing themselves as agent in real estate transaction
- Mortgage Broker/Lender Owner completing their own real estate transaction:
  - Any compensation charged (LPC or BPC will be considered cash out and therefore ineligible) however, a reasonable processing fee may be charged
  - A different LO must have taken the 1003 application
- Employee of mortgage Broker/Lender loan:
  - Any compensation charged (LPC or BPC will be considered cash out) however, a reasonable processing fee may be charged
  - A different LO must have taken the 1003 application
- Renter(s) purchasing from Landlord:
  - 12 months cancelled checks or bank statements to prove timely payments required
  - A private party VOR is not acceptable
  - A VOR obtained from a property management company is 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 existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout
- Employer to employee sales
  - Must provide a 12-month mortgage history on existing mortgage securing subject property confirming the sale is not a foreclosure bailout
  - Full Doc loans only with valid transcripts
  - If borrower was not on job long enough to obtain at least one year of transcripts, loan will only be eligible if VOE is reporting through the Work Number or similar verification service.
  - Family Sales. A family sale is not intended to be a bail out of a family member who has had difficulties making their mortgage payment.
  - Must provide a 12-month mortgage history on existing mortgage securing subject property confirming the sale is not a foreclosure bailout

3.2.4 NON-ARM'S LENGTH AND INTERESTED PARTY RESTRICTIONS

- Borrower to provide cancelled check verifying the earnest money deposit
- Gift of Equity: Maximum LTV/CLTV – Refer to Lendz Financial Matrix
- Not available on Select Credit Grade
- For Sale by Owner (FSBO) transactions must be carefully scrutinized
- Property trades between buyer and seller not allowed

4.0 BORROWER ELIGIBILITY

4.1 INELIGIBLE BORROWERS

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction
- Irrevocable Trust
- Land Trust

4.2 NON-OCCUPANT CO-BORROWERS – OWNER OCCUPIED ONLY

- Eligible transactions limited to Purchase and Rate & Term only
- Income of occupying borrower(s) must exceed the subject PITIA
- ITIN borrowers not allowed
- Primary Residence only
- Second Home, Investment & Business Purpose Non-TRID Loans not allowed
- The Non-Occupant Co-borrower cannot be considered the primary wage earner regarding credit

4.3 FIRST TIME HOMEBUYERS

The following requirements apply to first time homebuyer (FTHB) transactions.

- Primary residences allowed when meeting all the following requirements:
  - 12-month rental history required reflecting 0x30
    - Rental history is not required for borrowers living rent free (Refer to the Housing History section of this guide for restrictions on borrowers living rent free)
  - Payment shock limited as shown on the table below
- Non-owner occupied investment properties are allowed when meeting all the following requirements:
  - 12-month rental history required reflecting 0x30
    - Borrowers living rent free are ineligible
  - Subject rents are not allowed to be used for qualifying purposes
  - Full income documentation only, Alt income is not allowed
  - Payment shock may not exceed 300% of current housing
  - Refer to Non-QM Matrix for LTV, FICO and loan amount restrictions
- Second homes and business purpose non-TRID loans are not allowed
- Payment shock table:

CREDIT SCORE	> 45% DTI	≤ 45% DTI
≥ 700	Payment shock not applicable*	Payment shock not applicable*
≥ 660	300% current housing	Payment shock not applicable*
< 660	Not allowed	300% current housing
*Max 300% payment shock for investment properties		

Payment Shock = (Proposed Housing Payment /Present Housing Payment) * 100

Lendz Financial will use prudent judgment in evaluating any payment shock implications and the ability of the Borrower to repay the new mortgage loan. Payment shock exceeding acceptable limits will be reviewed case by case and must be accompanied by a documented history of saving which supports the borrower's ability to handle the increased payment.

4.4 RESIDENCY

Eligible:	• U.S. Citizen • Permanent Resident Alien Refer to Lendz Financial matrix for Program Eligibility
Ineligible:	• Applicants possessing diplomatic immunity • Borrowers from OFAC sanctioned countries • Politically exposed borrowers • US Citizens living abroad • Any borrower prohibited from purchase and ownership of real property in part by state and federal acts and/or statutes enacted by a legislative body • Any 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. • Non-Permanent Resident Aliens • Foreign National • ITIN

Refer to Fannie Mae guidelines for all definitions of eligibility status and the Lendz Financial Matrix for additional restrictions.

4.4.1 U.S. CITIZEN

Eligible without guideline restrictions.

4.4.2 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.

- Acceptable evidence of permanent residency include the following:
  - Alien Registration Receipt Card I-151 (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)
- Eligible without guideline restrictions

4.4.3 NON-PERMANENT RESIDENT ALIEN

Not Eligible

4.4.4 FOREIGN NATIONAL OR ITIN R

Not Eligible

5.0 CREDIT

5.1 CREDIT REPORTS AND CREDIT SCORE

Fannie Mae guidelines should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility and credit score selection. The following exception is allowed:

- Decision Score: All borrowers must have a credit score
  - Minimum of one (1) borrower with two (2) credit scores (all three (3) repositories must be attempted)
  - Must use the lower of the two (2) credit scores or median of the three (3) credit scores generated unless one of the following occurs:
    - For multiple borrowers:
      - Full Doc and Alt Doc income document types: Use the Decision Score for the

primary wage; all borrowers must have a minimum Credit Score of 600

- DSCR: Lowest decision score among all borrowers to be used
    - When vesting in an entity (Non-TRID Business Purpose Loans only), the decision score of the member with the highest percentage of ownership is used. If all members have equal share of ownership, the lowest decision score among the members is used. All members must have a minimum credit score of 600.

For Frozen Credit, Refer to Fannie Mae Guidelines B3-5.1-01.

5.2 LOAN INTEGRITY & FRAUD CHECK

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

5.3 CREDIT INQUIRIES

Any credit inquiries on the borrower's credit report in the last 90 days must have documentation signed by the borrower explaining the inquiry and attestation of no new credit was established. If new credit was established borrowers must provide documentation on the current balance and payment and qualify accordingly. It is recommended the underwriter do additional diligence as necessary to ensure there is no undisclosed debt.

5.4 HOUSING HISTORY

Mortgage/rental history is required for most LENDZ programs. If a borrower's mortgage or rental history is not reported on the credit report, alternative documentation showing the most recent 12-month history (VORs and VOMs from servicing/mortgage companies and companies/management companies, etc., cancelled checks, mortgage/rental statements including payment history, etc.) should be provided. See matrix for LTV restrictions for accepting private party VORs. All loans held and/or serviced by the submitting broker, lender or banker that will be paid off through our transaction will require 12 months canceled checks. Bank statements in lieu of canceled checks may be allowed at the underwriter's discretion.

Borrower mortgage and/or rental history may reflect late payments based on Documentation Option and grade criteria, Refer to Lendz Financial Matrix for requirements. All housing late payments must be cured at the time of application and remain paid as agreed through closing.

Housing late payments exceeding 1x60x24 require a letter of explanation from the borrower. The situation causing the delinquency must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved.

Owner occupied properties: On owner occupied properties where the mortgage rating is in the name of the non-borrowing spouse and both are residing in the home together, the mortgage rating will be required and deemed acceptable for housing history requirements.

Second home and investment properties: Ratings in the name of non-borrowing spouse are not acceptable unless a joint account has been used to make the payments.

Borrowers who live rent-free are not allowed if the initial 1003 reflects any rent amount listed. Borrowers who cannot validate and verify that they live rent-free are not allowed.

Borrowers who can validate and verify that they live rent-free or borrowers without a complete 12 month housing history are allowed with the following restrictions:

- Full documentation and bank statement
    - Primary Residence only
- Diamond NonQM ineligible
- DSCR Experienced Investors only
- 5% minimum borrower contribution
- 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 6 months and are currently residing rent free until subject transaction closes, are not considered to be living rent free and a Gap Housing history is not required

Refer to Lendz Financial Matrix for further guidance.

5.5 CONSUMER CREDIT

5.5.1 CONSUMER CREDIT HISTORY

Any delinquent account must either be brought current or paid off at closing.

All mortgage accounts must be current at application and remain paid as agreed through closing.

5.5.2 TIMESHARES

Timeshare obligations will be treated as a consumer installment loan.

5.5.3 CONSUMER CREDIT CHARGE-OFFS AND COLLECTIONS

- Accounts with a cumulative balance greater than $5,000 must be paid in full prior to or at closing unless they exceed state statute of limitations for debt collection
- Medical collections/charge-offs may remain open
- A 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge off date
- Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded. Evidence of expiration must be documented

Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following:

- Payments for open charge-offs or collections are included in the DTI (Subject to program DTI restrictions)
  - If there is no payment, use 5% of the balance
- Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements
- <u>DSCR Loans Only</u>: Collections and Charge-offs can be left open when Mortgages are paid as agreed and LTV is 65% or less (Select DSCR or No Ratio Grades Excluded)

5.5.4 CONSUMER CREDIT COUNSELING SERVICES

Borrowers currently participating in Fannie Mae approved credit counseling services are acceptable if most recent 12 months paid as agreed, and the CCCS administrator provides a letter allowing borrower to seek new mortgage financing.

5.5.5 JUDGMENT OR LIENS

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

5.5.6 DELINQUENT TAX INCOME

All delinquent tax (federal, state, local) must be paid off prior to or at loan closing. Tax liens and delinquent tax debt that has not become a lien, that does not impact title (open liens reflected on credit report will impact title and must be paid off) may remain open provided the following are met:

- The file must contain a copy of the repayment agreement
- A minimum of 2 payments were made under the plan with all payments made on time
- If a lien: The balance of the lien must be included when determining the maximum CLTV for the program
- If a lien: Refinance transactions require a subordination agreement from the taxing authority

<u>For Purchase Money Transactions</u>

- A copy of the repayment agreement is obtained
- A minimum of 2 months elapsed on the plan and evidence of timely payments for the most recent 2 months is provided
- The maximum payment required under the plan is included in the debt-to-income ratio
- The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien with no exception to final title policy, and (b) subordination agreement from IRS, when necessary
- Maximum DTI of 50%
- Evidence of two timely payments is not required if two months have not elapsed since entering into the repayment agreement, the balance owed is for the current tax filing year and is less than or equal to 5% of the property value
- If a lien: The balance of the lien must be included when determining the maximum CLTV for the program
- If a lien: Refinance transactions require a subordination agreement from the taxing authority

5.6 BANKRUPTCY HISTORY

5.6.1 CHAPTER 13

Lendz Financial allows recently settled BKs, depending on credit grade, that require either no prior BK 13 pay history or require 24 months satisfactory BK 13 pay history (if full term of BK is less than 24 months, a pay history for the full term is required). (Refer to Lendz Financial Matrix for additional information.)

A cash-out refinance may be used to settle the remaining balance of a Chapter 13 repayment plan if all of the following requirements are met:

- A minimum of 12-months of payments have been made under the bankruptcy plan
- The most recent 12-months of payment plans have been made on time
- The borrower has received written permission from the bankruptcy court for the mortgage transaction
- Max Credit Grade of C

Refer to Lendz Financial Series 7 Matrix for grade specific restrictions.

5.7 FORECLOSURE SEASONING

Foreclosures completed in the last 24 months require a letter of explanation from the borrower. The situation causing the foreclosure must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple foreclosures exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the Note date. In the case of a foreclosure which was included in Bankruptcy, the seasoning timeline will start from the earlier of a) the date of discharge of bankruptcy and b) the foreclosure completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the foreclosure date will be used. Active foreclosures are not allowed.

Refer to Lendz Financial Matrix for grade specific restrictions.

5.8 SHORT SALE/DEED-IN-LIEU SEASONING

Short Sales and Deed-in-Lieu of Foreclosures completed in the last 24 months require a letter of explanation from the borrower. The situation causing the Short Sale / Deed-In-Lieu must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple Short Sales and/or Deed-In-Lieu exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the Note date. For the Credit Grades of B, and C, where the housing event can be settled, the delinquency proceeding the housing event can be ignored.

In the case of a short sale/deed-in-lieu which was included in Bankruptcy, the seasoning timeline will start from the earlier of a) the date of discharge of bankruptcy and b) the short sale/deed-in-lieu completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the completion date will be used. Short Sale or Deed-In-Lieu currently in process are not allowed.

Refer to Lendz Financial Matrix for grade specific restrictions.

5.9 FORBEARANCE OR MODIFICATION

Forbearance or loan modifications are treated as a short sale / deed-in-lieu for grading and pricing purposes. For the Credit Grades of B, and C, where the housing event can be settled, the delinquency proceeding the housing event can be ignored. Servicing retention related interest rate modifications are excluded from the seasoning requirement. A letter or explanation from the borrower addressing the situation that made forbearance or modification necessary must be provided. The current housing payment history along with the new housing payment must be considered when determining if the situation is adequately resolved.

5.10 TRADELINES AND GRADE DETERMINATION

5.10.1 STANDARD TRADELINES

- All Programs
  - 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, or
  - At least 1 revolving tradeline reporting for 60 months with activity in the last 12 months and a verified 12-month housing history 0x30; or
  - At least 1 installment tradeline reporting for 36 months with activity in the last 12 months and a verified 12-month housing history 0x30

Mortgage accounts do count toward required tradelines. VORs and VOMs from servicing companies and/or management companies count toward tradelines with a credit supplement.

Married Borrowers do not need to individually meet tradeline requirements. Their combined credit will be considered when evaluating acceptable tradelines.

The following are not acceptable to be counted as a tradeline: "Non-traditional" credit as defined by Fannie Mae, any liabilities in deferment status, accounts discharged through bankruptcy, authorized user accounts, charge-offs, collection accounts, foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales. Any tradeline that cannot be used as a qualifying tradeline also will not affect the DTI.

Note: ITIN borrowers have different restrictions, Refer to ITIN section.

5.10.2 LIMITED TRADELINES

If Standard Tradelines requirements are not met, and the borrower has a valid credit score per the Credit Reports and Credit Score section of this guide the following restrictions apply:

Owner Occupied & Second Home:

- Full 12 months Mortgage or Rental History required with no late payments
- On a purchase, borrower must have 5% of their own funds
- On a refinance, a full 12-month mortgage history tradeline with no late payments satisfies the tradeline requirements
- All other credit grade parameters must be met
- If the above requirements are not met, the maximum credit Grade is B
  - If above are met, Refer to the Series 7 Matrix for Grade requirement

Investment & Business Purpose Non-TRID Loans

- Max grade of a B on Full Doc and Alt-Doc Loans
- Max 70% LTV on DSCR and not allowed on Select DSCR and No Ratio Loan Programs

Note: ITIN borrower have different restrictions, Refer to ITIN section

5.11 OBLIGATIONS NOT APPEARING ON CREDIT REPORT

5.11.1 HOUSING AND MORTGAGE-RELATED OBLIGATIONS

Housing and mortgage-related obligations include property taxes, 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. 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.

Note: Refer to Credit (DSCR) section for Housing History on DSCR Loans.

5.11.2 CURRENT DEBT OBLIGATIONS, ALIMONY AND CHILD SUPPORT

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. 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.

Not applicable to DSCR Loans.

5.11.3 DEBTS PAID BY OTHERS

Certain debts can be excluded from the borrower's recurring monthly obligations ratio:

- When a borrower is obligated on a non-mortgage debt—but is not the party who is actually repaying the debt—the lender may exclude the monthly payment from the borrower's recurring monthly obligations
  - This policy applies whether or not the other party is obligated on the debt but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor)
  - Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement
- When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt, the lender may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:
  - the party making the payments is obligated on the mortgage debt,
  - there are no delinquencies in the most recent 12 months, and
  - the borrower is not using rental income from the applicable property to qualify
- In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender 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

- When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties (if applicable per Fannie Mae B2-2-03, Multiple Financed Properties for the Same Borrower
- Not applicable to DSCR Loans

5.12 PAYMENT SHOCK

Payment shock should not exceed 300% of the borrower's current housing payment unless DTI is less than or equal to 45%. If payment shock exceeds this limit the underwriter must provide justification of borrower's ability to handle the increased payment. If the loan purpose is debt consolidation, and the net tangible benefit test is met, a payment shock calculation is not required. NOTE: Refer to additional payment shock restrictions in the First Time Homebuyers section of this guide.

Payment Shock = (Proposed Housing Payment /Present Housing Payment) * 100 Borrowers living rent-free use $1 for qualification.

5.13 ADDITIONAL CREDIT CRITERIA

5.13.1 OWNER OCCUPIED & SECOND HOME

- Inquiries – Recent inquiries within 90 days of the credit report date must be explained by the borrower
- New debt/liabilities – A verification of all new debt/liabilities must be provided, and borrower should be qualified with the additional monthly payment

5.13.2 INVESTMENT & BUSINESS PURPOSE NON-TRID LOANS

Inquiries – Recent inquiries within 90 days of the credit report date must be explained by the borrower.

5.14 NEW DEBT/LIABILITIES

A verification of all new debt/liabilities must be provided, and borrower must be qualified with the additional monthly payment.

5.15 DISPUTED ACCOUNTS

- When the credit report contains tradelines disputed by the borrower and if the disputed account balance is $1,000 or less, the payment can be included in the total debt calculation and the account can remain in dispute
    - Total aggregate balance of accounts in dispute remaining unresolved cannot exceed $3,000
- If the account that is in dispute is currently delinquent, a Charge Off or Collection, the requirement to pay off the account is at underwriter's discretion.

6.0 ASSETS

THE FOLLOWING APPLY TO ALL TRANSACTIONS UNLESS OTHERWISE STATED.

6.1 DOCUMENTATION OPTIONS

Various forms of documentation are acceptable depending on borrower asset type. Assets and reserves should be calculated and documented to Fannie Mae guidelines unless otherwise specified in Lendz Financial guidelines. Fannie Mae guidelines prevail where this guide is silent regarding sources and types of assets as well as asset types not eligible to be included.

6.2 RESERVES

- The minimum reserve requirements are outlined on the Lendz Financial Matrix
- Reserves must be sourced and documented per section 7.5 of these guidelines
- Additional Reserves - Each financed property in addition to the subject property, will increase the applicable reserve requirement by two (2) months PITIA on the subject property to a maximum requirement of 12 months (Additional reserves based upon the PITIA of the subject property); On all income documentation loans, full doc and bank statements, when reserves are required. Not applicable to DSCR/No Ratio Loans.
    - Reserves for an additional financed property with an interest only loan feature is based upon the interest only (ITIA) payment
    - Reserves for an additional financed property with an ARM loan without an interest only feature is based upon the initial PITIA
- Proceeds from a cash out refinance can be used to meet the reserve requirements
- <u>Owner Occupied & Second Home ONLY:</u>

- 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 5% or greater AND housing history is 1x30x12 or better (no housing history, unless the property is free and clear, is not allowed); waiver not eligible for DTI greater than 50%
- For an interest only loan the reserves are based on the interest only payment

- Proceeds from 1031 Exchange cannot be used to meet reserve requirements
- Gift funds may NOT be used to meet reserves requirements

6.3 DOWN PAYMENT SOURCING

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

6.4 GIFT FUNDS/GIFT OF EQUITY

- When gift funds or gift of equity are used for all or part of the down payment, they are acceptable in either scenario:
    - 100% of gift funds with 10% LTV reduction, or
    - 5% down payment has been made by the borrower from their own resources
- Gift funds are not eligible under Asset Utilization program
- Fannie Mae guidelines are to be followed for acceptable donors and documentation requirements included verifying donor availability of funds and transfer of gift funds, refer to B3-4.3-04, Personal Gifts
- Gift funds may NOT be used to meet reserve requirements
- When a gift from a non-borrowing spouse or registered domestic partner is being combined with the borrower's funds to meet the required minimum cash down payment, the funds are not considered a gift when all the following items are provided:
    - Certification from the non-borrowing spouse or registered domestic partner stating that he/she has lived with the borrower for the past 12 months and will continue to do so

- Documentation evidencing a history of shared residency. The spouse's address must be the same as the borrower's address. Examples include but are not limited to a current utility bill or bank statement.
- If funds are held in a separate asset account, asset statements covering the most recent 60 day period, (30 day period for DSCR loans) are to be provided and must adhere to the asset guidelines

6.5 ASSET DOCUMENTATION

In addition to documenting the minimum reserve requirements, all borrowers must disclose, and Underwriters must verify all other liquid assets.

6.5.1 DOCUMENTATION REQUIREMENTS

- Account Statements should cover most recent 60-day period
- If account has other names in addition to the borrower(s), a 100% access letter and an LOE is required (this pertains to personal and business accounts; if a borrower owns a business 100%, no access letter is required, even if there are other names on the business account)
- Investments in Stocks/Bonds/Mutual Funds/Annuities/ certificates of deposit/money market funds/ and Trust Accounts for which the borrower is a direct beneficiary - 100% of these accounts can be considered in the calculation of assets for closing and reserves
- Vested Retirement Account funds – 100% may be considered for reserves (refer to Fannie Mae B3-4.3-03)
- Vested Retirement Account funds – 60% may be considered for closing costs and down payment
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves
- Asset Utilization: Any assets that are depleted and used as income are not eligible for use as reserves
- When bank statements are used, large deposits must be evaluated; large deposits are defined as any single deposit that exceeds more than 75% of the monthly average deposit balance, and they must be sourced based upon the Down Payment Sourcing section of this Guide

  An example of how to identify a large deposit:

- Month 1 deposits
  - $1,000
  - $1,500
- Month 2 deposits
  - $2,500
  - $5,000
- Total deposits equal $10,000 or a monthly average of $5,000
- 75% of the monthly average is $3,750
- The $5,000 deposit from month 2 needs to be sourced

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower's name at least three (3) days prior to closing.

- 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 two (2) most recent statements of that account are required; if the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds

6.5.2 SOLE PROPRIETOR ASSETS/BUSINESS FUNDS

7.0 INCOME

7.1 GENERAL INCOME ANALYSIS

THE FOLLOWING APPLY TO ALL INCOME DOCUMENTATION OPTIONS UNLESS OTHERWISE STATED IN THE SPECIFIC SECTION OF THE GUIDELINES.

This section does not apply to any DSCR loans.

7.1.1 INCOME WORKSHEET

Unless business purpose then the loan file must include an Income worksheet detailing income calculation. Income analysis for borrowers with multiple businesses must show income/ (loss) details separately, not in aggregate.

7.1.2 EMPLOYMENT/INCOME VERIFICATION

- Most recent one (1) or two (2) years income documentation is required for all income/documentation types unless otherwise noted
- If any borrower is no longer employed in the position disclosed on the URLA at the time of funding, Lendz Financial will not allow to fund

7.1.3 STABILITY OF INCOME

- Stable monthly income is the Borrower's verified gross monthly income which can be reasonably expected to continue for at least the next three years. Lendz Financial must determine that both the source and the amount of the income are stable
- A two-year employment history is required for the income to be considered stable and used for qualifying
- When the Borrower has less than a two- year history of receiving income, underwriter must provide written analysis to justify the stability of the income used to qualify the Borrower
- While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income.

7.1.4 EARNINGS TRENDS

When analyzing borrower earnings, year over year earnings trends must be incorporated into the borrower’s income calculation.

YTD income amount must be compared to prior years’ earnings where applicable.

- Stable or increasing: Income amount should be averaged
- Declining but stable: If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used
- Declining: If trend is declining, the income is not eligible

7.2 DEBT-TO-INCOME RATIO

The Debt-to-Income (DTI) ratio is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses. (Refer to Lendz Financial Matrix for further details.)

7.3 RESIDUAL INCOME

Residual Income is the amount of monthly income remaining once a borrower has paid all monthly debt obligations. Residual Income = Gross Monthly Income minus total monthly debt. (Refer to Lendz Financial Matrix or further details.)

7.4 DOCUMENTATION OPTIONS

Various forms of documentation are acceptable depending on the borrower's income type. Income should be calculated and documented to Fannie Mae guidelines unless otherwise specified within Lendz Financial guidelines. Fannie Mae guidelines prevail regarding sources and types of income as well as ineligible income. A Fannie Mae Form 1084 or equivalent income worksheet should be included and delivered as part of the credit file.

DOC TYPE SUMMARY	Full Doc 24 Months	Full Doc 12 Months	Alt Doc	Alt Doc Asset Utilization only
Min FICO	Refer to Matrix*	Refer to Matrix*	Refer to Matrix*	Refer to Matrix*
Max LTV/CLTV	Refer to Matrix*	Refer to Matrix*	Refer to Matrix*	Refer to Matrix*
Income Documentation	2 years W2s OR Tax Returns	1year W-2s OR Tax Return	• 12 Months Personal Bank Statements • 12 Months Business Bank Statements • P&L Statement + 3 Mos Bank Statements • 1099 Only • WVOE Only	Amortized Liquid Assets for income or 100% Qualification
Transcripts Required	Yes	Yes	No (yes if blended with full doc)	No (yes if bended with full doc)
Employment	W2 or Self-Employed	W2 or Self-Employed	Self-Employed Only except WVOE, must be W2	None, W2 or Self Employed

7.4.1 TAX RETURNS

The following criteria applies when personal and/or business tax returns are used to verify income:

- Complete personal income and business tax returns with all schedules to be provided and signed and dated by each borrower. If tax transcripts confirm the information on the tax returns, signature and dates are not required.
- The most recent year's tax returns, if filed on extension after the federal tax deadline, should be filed at least 60 days before the earlier of the application date or the credit report date
- Amended tax returns must be filed at least 60 days before the earlier of the application date or the credit report date regardless of the current year federal tax deadline. When amended tax returns are provided, due diligence is to be used to determine if the amended tax return is acceptable. The following is to be provided in addition to the amended return:
    - Original tax return (for consistency comparison with previous filings)
    - Letter of explanation regarding the reasons for the amendment
    - Evidence of filing
    - Proof of payment, if applicable
    - If amended for income-related items documentation to support the increase in income

7.4.2 4506-C

When the IRS Form 4506-C is required, the form must be signed by the borrower and the transcript obtained and included in the credit file. If the transcript request is returned with a code 10 or the borrower is a victim of taxpayer identification theft, the following requirements must be met to validate income:

- Copy of the IRS rejection with a code of "Unable to Process" or "Limitation"
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's 1040s
- Validation of prior tax year's income (income for current year must be in line with prior years)

In the current year filing period for taxes, Lendz Financial will follow FNMA for other acceptable verification of taxes when "No Record Found" results are returned; this includes verified e-filing and proof of payment for taxes or proof of refund to borrower,

7.5 FULL DOCUMENTATION INCOME

Full Income Documentation 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. Refer to Lendz Financial Matrix for requirements.

7.5.1 RESTRICTIONS

Refer to Lendz Financial Matrix for FICO, Grades, LTVs, and all other restrictions.

7.5.2 FULL INCOME DOCUMENTATION (24-MONTHS)

When tax returns are required, as in the case of investment property ownership, the most recent two years should be provided. The definition of most recent is the last return scheduled to have been filed with the IRS.

Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior two years of tax returns.

- Wage or Salaried Borrowers:
  - The FICO score of the Primary Wage Earner will be used for grading and pricing
    - Any Co-Borrower must have a minimum score of 600.
  - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or the borrower's recent paystub (reflecting 30 days of pay and YTD earnings) and IRS W-2 forms covering the most recent two-year period
  - A verbal VOE from each employer within 10-days of the Note date
  - A completed, signed, and dated IRS Form 4506-C is required for each borrower. If tax returns are present in the credit file, transcripts for the return will be required.
- Self Employed Borrowers:
  - Most recent two years of tax returns, personal and business if applicable (including all schedules), signed and dated by each borrower. If tax transcripts verify information on Tax Returns, Tax Returns do not have to be signed and dated by the borrower(s).

  - A YTD P&L and (Borrower prepared acceptable, borrower required to sign the P&L) if a gap exists between the tax return ending date and start of the YTD P&L, a gap year P&L is required. P&Ls are for qualifying positive income only. If negative income was reflected from a business and negative income was used in the income calculations, a P&L is not required for that negative income and/or business.
  - A complete, signed, and dated IRS Form 4506-C is required for each borrower and any business entity filing a separate return, at the underwriter's discretion the forms should be executed, and the transcripts included in the credit file. If included, the tax returns and transcripts should be compared; any discrepancies should be explained and if necessary additional documentation obtained to satisfactorily address.
  - Verify the existence of the business, for positive income used in income qualifying, within 60-days of the Note date and ensure the business is active with the following: a phone listing and/or business address using directory assistance, internet search, for self-employed independent contractors, use either a letter from a third party company currently utilizing their service(s) or a business license procured through the internet reflecting active and not expired.
  - If a business reflects negative income and that negative income was used in the qualifying income, business verification will not be required.
  - Underwriter must consider the financial strength of a self-employed borrower's business.

7.5.3 FULL INCOME DOCUMENTATION (12-MONTHS)

- When tax returns are required, as in the case of investment property ownership, the most recent year should be provided:
  - The definition of most recent is the last return scheduled to have been filed with the IRS
  - Any Borrower that applied for a tax return extension must provide a copy of the extension in the credit file along with the prior-year tax return
- Wage or Salaried Borrowers:
  - A completed Request for Verification of Employment (Form 1005 or Form 1005(S)), or the borrower's recent paystub (reflecting 30 days of pay and YTD earnings) and IRS W-2 form for the most recent tax year
  - A verbal VOE from each employer within 10-days of the Note date

    - A completed, signed, and dated IRS Form 4506-C is required for each borrower; if tax returns are present in the credit file, the transcript for the return will be required

- Self Employed Borrowers:
    - Most recent year of tax returns, personal and business if applicable (including all schedules), signed and dated by each borrower; if tax transcripts verify information on Tax Returns, Tax Returns do not have to be signed and dated by the borrower(s)
    - A YTD P&L (borrower prepared acceptable, borrower required to sign the P&L) and, if a gap exists between the tax return ending date and start of the YTD P&L, a gap year P&L is required; P&Ls are for qualifying positive income only, thus if negative income was reflected from a business and negative income was used in the income calculations, a P&L is not required for that negative income and/or business
    - A complete, signed, and dated IRS Form 4506-C is required for each borrower and any business entity filing a separate return:
        - The form should be executed, and the transcripts included in the credit file
        - The tax returns and transcripts should be compared; any discrepancies should be explained and, if necessary additional documentation obtained to address satisfactorily
        - If the 1040 transcripts reflect the K-1 income and it matches the K-1s given and the K-1 income on Schedule E of the 1040s, then business transcripts do not need to be requested, unless using income, such as depreciation, from 1120s or 1065 returns then transcripts for business returns will be required
    - Verify the existence of the business, for positive income used in income qualifying, within 60-days of the Note date and ensure the business is active with the following:
        - Phone listing and/or business address using directory assistance or internet search
        - For self-employed independent contractors, use either a letter from a third-party company currently utilizing their service(s) or a business license procured through the internet reflecting active and not expired
        - If a business reflects negative income and that negative income was used in the qualifying income, business verification is not required
    - Underwriter must consider the financial strength of a self-employed borrower's business

7.5.4 OTHER SOURCES OF INCOME

The following sources of income must be verified using Fannie Mae requirements. Bonus, and Overtime are permitted with Full Income (12 Months) documentation and generally calculated over the 12-month period and are not considered an exception, (FNMA considers an exception).

- Annuity
- Auto allowance
- Bonus
- Capital Gains
- Child Support and Alimony
- Commission
- Disability (with proof of 3-year continuance)
- Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency; follow FNMA Guidelines for foreign income
- Housing Income
- Interest and Dividends
- Investment
- Military or government assistance
- Overtime
- Part-time/Variable (uninterrupted and stable for past two years)*
- Rental Income should be documented through Schedule E of the borrower's tax returns. If the property was not rented during the previous tax year, the income will be calculated as follows:
    - Long Term Rental:
        - Based on the lower of the lease agreement or 1007, as applicable, times 75% for single unit property
        - The most recent two months' rent must be verified and documented as received in the most recent two months before closing
    - Short Term Rental:
        - 12 months statements or an annual statement provided by the on-line service provider such as Airbnb, VRBO, etc., evidencing rents received for the property to be provided. If more than one rental property is owned, the statements must clearly identify the rents received for each specific property.

        - If the property has been reported as long term rental the prior tax year and is now a short term rental at least six (6) months receipts of current short term rent is required
        - A screen shot of the online listing evidencing the property is actively marketed as a short term rental to be provided
        - Gross monthly rents are based on a 12 month average to account for seasonality
        - The actual extraordinary costs (i.e. management fees, advertising, furnishing, cleaning) listed on the 3rd party statements or a 20% extraordinary expense factor, if actual is not provided, must be subtracted from the gross rents
    - Rental Income from Boarders - For this income to be considered, the following requirements must be met:
        - There must be at least a 12-month history of receiving rental income from boarder or accessory dwelling unit (ADU)
        - Tax returns and tax transcripts are required
- Restricted Stock Income/Units
- Retirement and/or Social Security
- Trust: Verify using Fannie Mae requirements along with the following:
    - Document trust account funds, both of the following must be obtained:
        - Written documentation of the value of the trust account from either the trust manager or the trustee; and
        - The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage

* For Part-time employment, a minimum two (2) year history is generally required; however, a shorter period of no less than twelve (12) months may be considered case-by-case if positive factors are present to offset shorter history.

7.6 ALT DOCUMENTATION INCOME

Alt income documentation is available to borrowers who meet the requirements listed below. Refer to Lendz Financial Matrix

7.6.1 RESTRICTIONS

- Refer to Lendz Financial Matrix for acceptable credit grades, max LTV and DTI

7.6.2 ALT DOC – RENTAL INCOME

When rental income is the borrower's secondary or supplemental source of income, the following may be used to calculate income.

- Long Term Rentals:
  - Schedule of Real Estate owned (URLA) must be completed for all investment properties where the borrower is held personally liable. PITIA/TIA will be included in the DTI calculation. Fully executed lease/rental agreements for all properties required.
  - 75% of the lease/rental amounts will be used.
  - The most recent two months' rent must be verified and documented as received in the most recent two months before closing
  - If the subject property is an investment purchase, rental income from the subject property is determined as follows:
    - 75% of the current lease/rental amount
    - If there not an assignment of lease, 75% of market rent to be used
  - ADU income can be used to qualify on alternative doc income loan similar to the way the other investment property income is calculated
    - Purchase Transaction – Not available, except when assignable via the purchase contract and verified
    - Refinance Transaction – Only available with executed lease agreement and 2 months verifiable rent received
- Short Term Rentals:
  - 12 months statements or an annual statement provided by the on-line service provider such as Airbnb, VRBO, etc., evidencing rents received for the property to be provided. If more than one rental property is owned, the statements must clearly identify the rents received for each specific property.
  - A screen shot of the online listing(s) evidencing the property is actively marketed as a short term rental to be provided
  - Gross monthly rents are based on a 12 month average to account for seasonality

- The actual extraordinary costs (i.e. management fees, advertising, furnishing, cleaning) listed on the 3rd party statements or a 20% extraordinary expense factor, if actual is not provided, must be subtracted from the gross rents

7.6.3 ALT DOC - 12-MONTHS BANK STATEMENTS

The Self-Employed Bank Statements program is available to self-employed borrowers only and allows the use of bank statements to document self-employment income. Income documented through the Self-Employed Bank Statement method may be combined with other income sources that are documented as Full Doc but not associated with self- employment, such as a spouse employed as a wage earner or a borrower with previous year working as W-2 employee.

When wage income is combined with Self-Employed Bank Statements, a tax return is not required for the full income documentation, as this would invalidate the bank statements if received for the same tax year. The 4506-C is still required, however, box 8 should be checked to obtain a transcript of W-2 earnings. If tax returns and/or transcripts are provided, the loan will be ineligible for the Self-Employed Bank Statement Program.

7.6.3.1 BANK STATEMENT DOCUMENTATION

- At least one of the borrowers must be self-employed
- Other name(s) on bank statements used to qualify:
  - Direct relative(s) only (Refer to Fannie Mae guide); LOE required
  - 100% access letter
  - Any deposits in the name of the other parties, are excluded

BANK STATEMENT TYPES	12-MONTH INCOME/EXPENSE DOCUMENTATION OPTIONS
Personal* Reflecting borrower's personal income and expenses	• Most recent 12 months Personal Bank Statements and • Most recent 2 months Business Bank Statements
Business* In the name of the business, reflecting only business income and expenses	• Assumed Business Expense Factor from the Fixed Expense Factor Table OR one of the Rebuttal Options; OR • 12 Month P&L Statement prepared by CPA, Enrolled Agent, Properly Licensed Accounting -Bookkeeping Firm

Co-mingled* Personal and Business activity combined in one account	supervised by a Certified Accountant, or the Chief Financial Officer (CFO) of the company providing the bank statements when 10+ employees are verified to work for company via narrative. ○ At least 3 most recent months Bank Statements required • One Year Self-employed, most recent 12 months of bank statements and previous full year W-2 with transcript
* Additional Bank Statements or Expense Analysis documents may be requested as needed.	

7.6.3.2 INCOME ANALYSIS

Self-employed Borrowers

A borrower with a 25% or greater ownership interest in a business is considered self-employed and must be evaluated as a self-employed borrower. Net income from the analysis of the bank statements must be multiplied by the borrower's ownership percentage to determine the borrower's qualifying income.

Verify the existence of the business, within 60-days of the Note date, to ensure the business is active with the following; a letter from either the business tax professional certifying two years of self-employment in the same business, or regulatory agency or licensing Bureau reflecting license is still active and not expired; or an internet search that verifies business' phone number or address or for self-employed independent contractors a letter from third party company currently utilizing their service(s).

NOTE: Businesses that function as non-profit enterprises are ineligible for self-employment treatment.

Service & Tip Industry

Due to the cash nature of the service and tip industry, those borrowers may participate in the bank statement program. Full documentation is required for employment. Base salary is verified with pay stubs and W2s. Qualified tips are averaged over time. Utilize the bank statement analysis to determine tip income.

Borrowers who obtain their income primarily in the form of service fees or tips (adult entertainer, musician, club hostess, etc.) are not required to have a business license. At least one business reference letter is required to validate employment. Deposits will be used to calculate income. P&L or expense factor letter not required if the borrower provides personal bank statements.

Rental Property Income (12 Month Bank Statements)

When Rental Income is the Borrower's primary income source, bank statements may be used to calculate income when meeting all the following:

- Borrower must attest rental income is the only line of revenue and rental income is deposited into one or more bank accounts
- Long Term Rentals:
  - 12 months bank statements evidencing receipt of rental income into borrower's co-mingled or business bank account required. Deposits must support the lease/rental amounts. Only rental income deposits will be used.
  - Schedule of Real Estate owned (URLA) must be completed for all investment properties where the borrower is held personally liable. PITIA/TIA will be included in the DTI calculation.
  - Fully executed lease/rental agreements for all properties required. 75% of the lease/rental amounts will be used.
- Short Term Rentals:
  - 12 months statements or an annual statement provided by the on-line service provider such as Airbnb, VRBO, etc., evidencing rents received for the property to be provided. If more than one rental property is owned, the statements must clearly identify the rents received for each specific property.
  - A screen shot of the online listing(s) evidencing the property is actively marketed as a short term rental to be provided
  - Gross monthly rents are based on a 12 month average to account for seasonality
  - The actual extraordinary costs (i.e. management fees, advertising, furnishing, cleaning) listed on the 3rd party statements or a 20% extraordinary expense factor, if actual is not provided, must be subtracted from the gross rents If the above documentation is provided, the income calculation will NOT follow the standard bank statement income calculation listed in the bank statement section

7.6.3.3 PERSONAL BANK STATEMENTS

- Income is calculated based on a 12-month average, or 24 month average of total deposits minus any inconsistent deposits not justified
- Pattern of deposits and payments should be consistent, as determined by the type of business
  - For example, a Real Estate Sales self-employed borrower may not have sold a property every month, so consistent would be deposits made a few times in a 12 or 24 month period

- ATM deposits/PayPal or similar deposits may be included if a consistent pattern of such deposits is present
- Changes in deposit pattern must be scrutinized
- Income documented separately but comingled must be backed out of deposits
- Two months most recent business bank statements
  - Must evidence activity to support business operations, and
  - May reflect transfers to the personal account

If the personal bank statements include names of individuals other than the borrower(s), the following is required:

- 100% Access Letter from individual(s) whose names appear on personal bank statements
- LOE from individuals explaining the relationship with the borrower(s), whether they are employed or not, whether they are associated with the business, and whether they contribute income to the bank account
- Business License and the most recent company formation information for LLC, Corp, or S-Corp

The underwriter will review the documentation provided. If the individual(s) work for the company and/or are part owners of the company, they must be on the loan for the income to be used. If the individual(s) work elsewhere but earn income provided in the statements, they must also be on the loan for the income to be used. Otherwise, whatever percentage is owned by the borrower(s) will be used for qualification.

7.6.3.4 BUSINESS AND COMINGLED BANK STATEMENTS – FIXED EXPENSE FACTOR

Underwriter will evaluate the type of borrower/business using the Fixed Expense Factor Table below, applied to business- related deposits. The expense factor will be determined via review of the completed business narrative (Refer to EXHIBIT I, Self-Employment Business Narrative, Questionnaire, and Certification) or any other borrower business narrative. If the expense factor allows the borrower to qualify, then no further expense analysis is required.

- Determine the Gross Monthly Qualifying Income

  Total Allowable Monthly Deposits = Net Qualifying Deposits ÷ 12 (or 24) Months

- Determine the Business Net Income.

  Gross Monthly Qualifying Income X (100% - Fixed Expense Ratio) (from table below)

FIXED EXPENSE FACTOR TABLE			
Number of Full-time Employees/Contractors	0—1	2—10	10+
Service Business *	30%	50%	60%
Product Business **	40%	60%	70%
Real Estate Business***	70%	75%	80%

*Service Business examples: Accounting, Consulting, Counseling, Financial Planning, Insurance, Law, Therapy, etc.

**Product Business examples: Clothing/Jewelry, Construction, Food Service/Restaurant, Manufacturing, Retail, Trucking, etc.

***Real Estate Investors, (without a schedule of current real estate), Property Developers and Property Flippers, CPA letters will not be accepted for a lower expense ratio

- Determine the Borrower's Monthly Qualifying Income

  Business Net Income X Borrower's Percentage of Ownership in the Business

  If the type of business may have a materially different expense factor per the lender or borrower, two rebuttal options are listed below. Should the Underwriter uncover any red flags that require further review, the Underwriter may request additional documentation.

<u>Rebuttal Option 1: Business Expense Statement Letter:</u>

Provide a Business Expense Statement Letter from a Tax Professional or a Properly Licensed Accounting/Bookkeeping Firm supervised by a Certified Accountant with 12 Months Bank Statements (or 24 Months Bank Statements when required).

- Net Income is determined by total deposits per bank statements, less total expenses
- Total expenses are calculated by multiplying total deposits by the expense factor provided by a CPA, Tax Preparer, or a properly licensed Accounting/Bookkeeping Firm supervised by a Certified Accountant
- Any expense factor lower than 15% will require a basic understanding of the borrower's business by a tax professional, which supports the expense factor noted, along with a borrower business narrative
  - The business narrative provided by the borrower should be reviewed to determine if the business provides a service or produces/manufactures goods
  - If the business has a website, it should be reviewed to gain additional information on the business and its size

- The Underwriter's review of the narrative should conclude that the expense factor is reasonable based on the information provided
- Qualifying income is the net income from the analysis

Rebuttal Option 2: 12-Month Profit and Loss Statement:

Provide a 12-Month Profit and Loss (P&L) Statement (24-Month if required by the Underwriter) from a Tax Professional or a Properly Licensed Accounting/Bookkeeping Firm supervised by a Certified Accountant.

- P&L Sales/Revenue must be supported by the provided bank statements, total deposits per bank statements, minus any inconsistent deposits, and must be no more than 10% below revenue reflected on the P&L
- The bank statements and the P&L must cover the same time period
- Qualifying income is the net income indicated on the P&L
- Additional Bank Statements or Expense Analysis documents may be requested as needed

7.6.3.5 NON/IN-SUFFICIENT FUNDS (NSF)/OVERDRAFTS ≥ 12 MONTH BANK STATEMENT ONLY

Non-sufficient funds (NSF) or negative balance(s) reflected on the bank statement must be considered. Overdraft protection fees associated with pre-arranged link to a savings account or line of credit must also be considered unless one of the following conditions exist:

Overdraft Protection (From a Depository Account of Line of Credit)

- A distinction is made between overdrafts (e.g., "Sweep" accounts) and NSFs, whereas certain overdrafts are covered by the borrower's own funds
  - Occurrences may be excluded if statements for the linked account confirm that:
    - The linked account balance/limit at the time of the transfer exceeded the amount of the overdraft transfer; and
    - There were no fees charged for the overdraft

Returned Checks

- Returned checks are considered separately; returned checks that do not result in a negative balance are not considered NSFs

NSF (Non-Sufficient Funds)

- NSFs occur when charges or checks exceed the available balance in an account, and there is not sufficient overdraft protection in place

  - NSF activity within the last 12 months (or 24, if required; depending on the program) requires a satisfactory explanation from the borrower
  - Any occurrence that happens on the same day is counted as a one-time occurrence
  - Multiple NSFs are viewed adversely and may affect qualification, especially at higher LTVs
  - Excessive NSFs will be highly scrutinized and may cause the loan to be deemed ineligible
    - Up to 12 occurrences in the most recent 12 months' time period is acceptable. Any occurrence in the most recent 90 days should be scrutinized by the underwriter. Any occurrence that happens on the same day is counted as one-time occurrence. For example, if there are multiple NSFs or overdrafts on one day, it will only count as 1 in the tolerance levels.
    - Any tolerance violations must be second signed and 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 underwriter supporting the viability of income.
- Underwriter may consider the financial strength of a self-employed borrower's business and the bank statement trends
  - Ending balances should show a trend that is stable or increasing
  - Low ending balances must be explained and could require additional documentation

Additional Bank Statements or Expense Analysis documents may be requested by the Underwriter as needed.

7.6.4 ALT DOC - PROFIT AND LOSS STATEMENT PLUS 3 MONTHS BANK STATEMENTS

Provide a 12-Month Profit and Loss (P&L) Statement from a CPA, Enrolled Agent, or Properly Licensed Accounting/Bookkeeping Firm supervised by a Certified Accountant with 3 Months Bank Statements (or more when provided or requested by an Underwriter). Proof of the preparer's current state license is required. If tax returns and/or transcripts are provided, the loan will be ineligible.

- NSF's/Overdrafts not allowed
- P&L Sales/Revenue must be supported by the provided bank statements, total deposits per bank statements, minus any inconsistent deposits, and must be no more than 10% below revenue reflected on the P&L

   - If this 10% tolerance is not met, continuous bank statements may be added to the analysis until the tolerance is met.
- Qualifying income is the net income from the P&L divided by the number of months it covers (12, or 24 if requested by Underwriter
- Expenses must be reasonable for the type of business
- Pattern of deposits and payment should be consistent., determined by type of business:
   - For example: A Real Estate Sales self-employed borrower may not have sold a property every month, so consistent would be if deposits were made a few times in 12 months (or 24 months if requested by the Underwriter)
   - Other examples include but are not limited to: A Convenience Store owner, Gas Station owner, or Restaurant owner may make large amounts of cash deposits; if deposits are ordinary for the type of business, they will not be backed out of the deposit calculations and sourcing is not required
- ATM/PayPal/Square/Venmo deposits may be considered and analyzed for consistency
- Income documented separately but comingled must be backed out of deposits

Additional Bank Statements or Expense Analysis documents may be requested by the Underwriter as needed.

7.6.5 ALT DOC – ONE YEAR SELF-EMPLOYED

Borrower must be self-employed for a minimum of 12 months, which follows a full year of W-2 employment in the same profession. Furthermore, the borrower's self-employment income must be earned from a field/line of work that provides the same products or services as the previous W-2 position or in an occupation in which he or she has similar responsibilities to those undertaken in connection with the previous business. The borrower must be the sole owner of the business.

The most recent 12 months of self-employment income via bank statements must show a topline revenue (via deposits) greater than or equal to their previous year's W-2 earnings to be considered. Up to a 10% variance in income will be allowed if the borrower's DTI is less than or equal to 45%.

<u>Income</u>

- Two years income required
   - Most recent 12 months consisting of 12 months of bank statements (following Lendz Financial Alt-Doc guidelines for income calculation)

- Previous full year W-2 with 4506-C verification (W-2 transcript only)
  - Verification only required for year of W-2 employment, not year of self-employment
  - If borrower's last W-2 year is not a full year of income, a previous full year of W-2 income must be provided and evaluated
- Any of the following documents can be used to prove self-employment and a full 12 months of activity:
  - Business License
  - Articles of Incorporation
  - Underwriter Internet Search
  - CPA Letter

Credit

Refer to Matrix.

Reserves, DTI, Residual Income

Reserves, DTI, and residual income, including any other limiting factor will follow the matrix for Alt Doc income.

7.6.6 ALT DOC - WVOE ONLY PROGRAM

Not Eligible

7.6.7 ALT DOC - 1099 ONLY PROGRAM

Not Eligible

7.6.8 ALT DOC - ASSET UTILIZATION

Not Eligible

7.7 DEBT SERVICE COVERAGE RATIO (DSCR)

Under the Debt Service Coverage documentation option, property income is used to qualify the transaction. Debt Service Coverage is available to Experienced and Inexperienced Investors purchasing or refinancing investment properties to hold for business purposes. The borrower is required to sign a Certification of Business Purpose and an Occupancy Certification. Samples of the forms are available: Certification of Business Purpose (Exhibit J) and an Occupancy Certification (Exhibit A).

Restrictions

- Subject property may not be occupied by any borrower, any member of the LLC or any family member (as defined by Fannie Mae)
- Refer to Lendz Financial Matrix

7.7.1 DSCR CALCULATION

- DSCR is calculated by gross rents divided by qualifying PITIA or ITIA
    - 100% of the rents can be used, and no vacancy factor is required
    - Refer to matrix for current DSCR ratios allowed.
        - *EXAMPLE* Debt Service Coverage Ratio (DSCR):
          Single-family Purchase Money Transaction
          Monthly PITIA = $650
          Estimated Monthly Market Rent (from Form 1007) = $850
          Existing Lease Monthly Rent = Not Available
          Gross Market Rent = $850 (Estimated Monthly Market Rent when a lease is not available for Purchase transaction)
          RATIO CALCULATION:
          Gross Income ÷ PITIA = DSCR (Ratio)
          RATIO: $850 ÷ $650 = 1.30

7.7.2 EXPERIENCED INVESTOR

- Experienced Investors are defined as:
    - Borrower(s) with history of owning and managing non-owner occupied income-producing investment real estate for at least 1 year within the last 3 years
    - Tradelines for mortgages reflected on the credit report and have been paid off or sold in the last 12 months may be used to meet the above requirements
    - Ownership history can be documented with, but not limited to, the following:
        - Mortgage history on credit report
        - Property profile report
        - Other 3rd party documentation such as Fraud Report, Settlement Statement, Closing Disclosure
- Only one borrower has to meet the Experienced Investor definition; all other borrowers can either be Inexperienced or First Time Homebuyers

7.7.3 INEXPERIENCED INVESTOR

- Inexperienced Investors are defined as:
    - Borrower without history of owning and managing non-owner occupied income-producing investment real estate for at least 1 year within the last 3 years
    - Inexperienced investors are allowed with the following restrictions:
        - 80% maximum LTV
        - $1,500,000 maximum loan amount
        - 60% maximum LTV for No Ratio DSCR
        - Cash-out not allowed on No Ratio DSCR
        - 0 x 30 x 12 housing history (VOM/VOR) required
        - Minimum 3 months reserves required, cash-out cannot be used to meet the reserve requirement
        - First time homebuyer not allowed
        - DSCR 5-8 Unit Residential and Short Term Rental ineligible
    - Tradelines for mortgages reflected on the credit report and have been paid off or sold in the last 12 months may be used to meet the above requirement

7.7.4 CREDIT (DSCR)

- Mortgage/Rental ratings are required for the borrower's primary residence (including primary residences owned in an entity) and for the subject property (if primary residence is owned free and clear will not need rating for that property)
    - All other REOs owned by the borrower, Corporation, or LLC, unless reported on the credit report, are not required
    - If other mortgages are reflected on the credit report, they are required to meet ratings per the Lendz Financial Matrix
    - Commercial property (including 4+ Units) can be excluded from REO, but if mortgages appear on the credit report, they must meet ratings per the Lendz Financial Matrix
    - Inquiries and variation of borrower's addresses do not need to be addressed.
    - Recent late payments on all consumer debt that exceed 1 X 60 over the previous 12 months will be scrutinized by the underwriter

7.7.5 REFINANCE (DSCR)

If the mortgage being paid off is not reporting on the credit report, cancelled checks or the ACH transaction history is required (do not submit full bank statements on a DSCR loan).

If cancelled check s or the ACH transaction history cannot be provided or if the payoff shows the loan did not have any payments due, a loan that meets all the following is eligible:

- Experienced investor only
- 0 x 30 x 12 housing history, living rent free is not allowed
- Minimum 12 months reserves
- Cash-out ineligible

If the above is not met, loan will be ineligible as DSCR and income documents must be provided to show payment ability.

7.7.6 BORROWER INCOME (DSCR)

- Proof of income is not required
- The Employment section of the 1003 loan application should be left blank
- The Income section of the 1003 loan application must be left blank
- Tax returns and IRS Form 4506-C are not required; if tax returns and/or transcripts are provided, the loan is ineligible for this DSCR program type

7.7.7 ASSET DOCUMENTATION (DSCR)

In the case of DSCR documentation, most recent 30 days of Asset verification is required.

- Large deposits should be sourced if underwriter determines there is a red flag, but no seasoning requirements apply
- If the account has other names in addition to the borrower(s), a 100% access letter and an LOE are required
- Business funds may be used for the down payment, closing costs, and for the purposes of calculation reserves
    - The borrower must be listed as the sole owner of the account; or
    - The borrower may use a maximum of their percentage of ownership as qualifying assets

The remaining asset documentation standards in 6.0 of this Guide apply

7.7.8 PROPERTY INCOME DOCUMENTATION AND DETERMINATION (DSCR)

Documentation Requirements

- Purchase
  - Form 1007
  - Existing lease/rental agreement(s), if applicable. (If current rents are more than markets rents, the lesser of actual rents or 125% of market rents may be utilized.)
    - When using a new lease, canceled checks must be from renter listed on the rental agreement
- Refinance
  - Form 1007
  - Existing lease/rental agreement(s). (If current rents are more than market rents, the lesser of actual rents or 125% of market rents may be utilized.)

Income Analysis

GROSS INCOME

Gross Income is the lower of gross rents indicated on the lease agreement(s) and Form 1007. If the lease agreement(s) reflect(s) higher rents than the 1007, the lease amount(s) may be used for gross rents if two months proof of receipt is verified—OR—if new lease, copy of agreement with validated proof of security deposit and 1st month's rent (new lease with no security deposit will not be allowed for this agreement to be used). For purchase transactions without an existing lease and Unleased/Vacant Property refinance transactions, the gross rents indicated on the 1007 may be used without the lease agreement(s).

7.7.9 LEASED PROPERTY

Purchase Transactions

Use the rents provided on the comparable rent schedule from the appraiser (unless subject property is currently rented and purchase contract is assigning rental agreement to proposed buyers – then rental agreement can be used).

Refinance Transactions

- Use the leases/rental agreements used throughout the year and average over the 12-month period
  - If there are months where the property is vacant, use zero for that month in the average—OR—if brand new lease, use with a validation of security deposit and first

month's rent (lease/rental agreement with no security deposit will not be allowed for this agreement to be used)

- The average should be supported by the comparable rent schedule (within reason)

- If documentation not provided showing a consistent minimum 8-month period, property will be considered unleased
- Airbnb, VRBO, or similar such rentals will be considered
- ADU Leases cannot be used unless verified by appraiser and lease agreement and supported by rental comps 1007 (comps need to reflect ADU income comps market rent)
- Lease not required on refinance transactions if loans amount ≤ $1MM and LTV ≤ 65%
  - Utilize rents from appraisal, 1007, or Rent Survey) – leased properties only per appraisal
  - Not available on short term leases or rural properties

7.7.10 UNLEASED/VACANT PROPERTY

A property where one or both of the following exist:

- A lease or month-to-month rental agreement does not exist, and rent is being collected only on a verbal agreement (if lease/rental agreement is expired, will not consider a verbal agreement; need a copy of the expired agreement) and/or
- Home is vacant

<u>Unleased Property LTV/CLTV Restrictions</u>

- Purchase Transaction: Program Max
  - Rate/Term and Cash-Out Refinance: Refer to Lendz Financial Matrix for program limitations

<u>Documentation Requirements</u>

- Purchase
  - Form 1007
  - Existing lease/rental agreement(s), if applicable. (If current rents are more than market rents, the lesser of actual rents or 125% of market rents may be utilized.)
    - When using a new lease, canceled checks must be from renter listed on the rental agreement.

- Refinance
    - Form 1007
    - Existing lease/rental agreement(s). (If current rents are more than market rents, the lesser of actual rents or 125% of market rents may be utilized)
    - Appraisal required from AIR compliant Appraisal Management Company (AMC), or (if transferred appraisal) a 2055 Drive By in lieu of CDA from AIR compliant Appraisal Management Company (AMC)
    - Underwriter must be able to determine the property has not been vacant for an unreasonable period and the likelihood it will be rented
        - Borrower provided letter of explanation or other documentation evidencing the cause of vacancy such as recent renovation or tenant turnover required

7.7.11 SHORT TERM RENTAL (STR)

Short term rentals are not eligible.

8.0 EXCEPTION POLICY

Exceptions are considered on a case-by-case basis, based on compensating factors. Compensating factors may include but are not limited to the following:

- Debt-to-Income Ratio
- Loan-to-Value
- Mortgage and/or Rental History
- Payment Shock
- Reserves
- Residual Income
- Time in Home
- Time on Job
- Other

Depending on the nature of the exception, multiple compensating factors may be required. The Credit Committee will review and decide the exception request. Requests will typically be reviewed and decisioned within 24 hours. An exception form will be retained in the credit file.