

Series B: DSCR Eligibility Matrix				
Max LTV/LTC				
Credit Score	Units	Maximum Loan Amount	DSCR ≥ 1.00 <sup>1</sup>	
			Purchase / Rate & Term	Cash-Out
700+	1-4	\$1,500,000	80	75
		\$2,000,000 <sup>2</sup>	75	70
680 – 699	1-4	\$1,500,000	80	70
		\$2,000,000 <sup>2</sup>	70	65
660 – 679	1	\$1,500,000	75	65
		\$2,000,000	65	60
Credit Score	Units	Maximum Loan Amount	DSCR 0.75 – 0.99 <sup>1</sup>	
			Purchase / Rate & Term	Cash-Out
700+	1-4	\$1,500,000	75	70
		\$2,000,000	65	60
680 – 699	1-4	\$1,500,000	75	65
		\$2,000,000	65	55
660 – 679	1	\$1,500,000	70	60
		\$2,000,000	60	50

<sup>1</sup> LTV reductions are applicable to loans with specific characteristics. See the following sections:

- Occupancy – unleased (vacant) long term rentals
- Eligibility – inexperienced investors
- Short-term rentals
- Eligible Property Types – non-warrantable condos

<sup>2</sup> DSCR ≥ 1.00: 2-4 unit properties permitted up to a \$2,500,000 loan amount with a 5% reduction to LTV and minimum 680 FICO

Loan Product		
<b>Eligible Terms</b>	<b>Standard/Single Property</b>	
	DSCR Fixed Rate 30yr term	
	5yr I/O with loan fully amortizing over remaining 25 yrs. <sup>2</sup>	
	10yr I/O with loan fully amortizing over remaining 20 yrs.	
<sup>2</sup> 7-year pre-payment penalty cannot be paired with this product		
<b>Loan Amounts</b>	<ul style="list-style-type: none"> <li>• Maximum Loan Amount:               <ul style="list-style-type: none"> <li>o \$2,000,000 (standard single family)</li> <li>o \$2,500,000 (standard 2-4 units)</li> </ul> </li> <li>• Minimum Loan Amount: 100,000</li> <li>• Minimum DSCR of 1.25 required on loan amounts less than \$150,000</li> </ul>	

<p><b>Interest-Only</b></p>	<ul style="list-style-type: none"> <li>• Permitted on Standard loans</li> <li>• 10 year IO period only</li> <li>• DSCR permitted to be calculated using ITIA payment</li> <li>• Reserve requirements are based on the ITIA payment</li> <li>• Minimum DSCR: Program minimum as determined by individual loan characteristics plus .10</li> </ul>
<p><b>Loan Documentation Requirements</b></p>	<p><u>Application must include the following:</u></p> <ul style="list-style-type: none"> <li>• Loan amount and terms</li> <li>• Subject and primary residence property address, type of property and number of units</li> <li>• Entity name and address (if applicable)</li> <li>• Borrower/guarantor(s) information including: social security number, HMDA information (natural borrower or business entity as applicable, not required for guarantors), date of birth, address and authorization to pull credit</li> </ul> <p><u>Note must include:</u></p> <ul style="list-style-type: none"> <li>• Collateral information</li> <li>• Loan terms, including prepayment penalty (if applicable) as shown in the section</li> <li>• Signature of any and all borrower/guarantor(s)</li> </ul> <p><u>Security Instrument must include:</u></p> <ul style="list-style-type: none"> <li>• Collateral information,</li> <li>• Signature of any and all borrower/guarantor(s),</li> <li>• Language that provides the holder of the security instrument with a valid and enforceable lien position</li> </ul> <p><u>Additional Required Documentation</u></p> <ul style="list-style-type: none"> <li>• Business Purpose/Non-owner Affidavit must be included in loan documentation</li> <li>• Lender to provide a clear OFAC check for all individuals with 25% or more ownership of the entity as confirmed by a current listing of ownership interests.</li> <li>• Personal Guaranty (when closing in the name of a business entity)</li> <li>• Cash out explanation for natural person borrowers (if not addressed on Business Purpose Affidavit)</li> </ul>
<p><b>Loan Documentation Requirements (continued)</b></p>	<ul style="list-style-type: none"> <li>• 1-4 Family Rider (residential package) /Assignment of Rents Rider (commercial package)</li> <li>• If utilizing the FNMA/FHLMC residential document set <b>you must also complete the <u>Business Loan Rider</u></b></li> <li>• All other business entity forms noted in the Eligibility section below (if applicable)</li> <li>• Lenders must comply with all aspects of ECOA including the Right to Receive a Copy of the Appraisal Report Disclosure</li> </ul>
<p><b>Loan Purpose</b></p>	<p>All loans must be for business purposes only and must be certified as such by the borrower/guarantor. No property can be occupied by any of the borrowers or guarantors (primary or secondary)</p> <p>Purchase, Rate/Term Refinance &amp; Cash-Out transactions are permitted</p>

<p><b>Occupancy</b></p>	<ul style="list-style-type: none"> <li>• No subject property is permitted to be occupied by any of the borrower/guarantors or their immediate family</li> <li>• Investment properties for 1-4 units           <ul style="list-style-type: none"> <li>◦ Occupied/Leased Property: A property that has at least the following number of Occupied/Leased Units:               <ul style="list-style-type: none"> <li>• single-family property = one unit occupied</li> <li>• two-family property = two units occupied</li> <li>• three-family property = two units occupied</li> <li>• four-family property = three units occupied</li> </ul> </li> <li>◦ Unoccupied/Unleased: A unit or property that is not categorized as an Occupied/Leased Unit or an Occupied/Leased Property, as applicable               <ul style="list-style-type: none"> <li>• Unoccupied/Unleased long term rental properties are subject to a 5% LTV reduction to the maximum permitted per the eligibility grid for any refinance transaction</li> </ul> </li> </ul> </li> </ul>
<p><b>Cost Basis</b></p>	<ul style="list-style-type: none"> <li>• Cost Basis: Cost basis is inclusive of the following:           <ul style="list-style-type: none"> <li>◦ Purchase price</li> <li>◦ Paid and documented borrower/guarantor rehabilitation/renovation costs expended to date evidenced by an “as is” appraisal and paid work receipts</li> <li>◦ Customary borrower/guarantor paid arms-length closing costs/ fees, including real estate broker commissions, title, escrow, other closing costs and the amount of taxes, HOA dues, fees, assessments, assignment fees (assignment fees greater than 10% of purchase price will require approval)               <ul style="list-style-type: none"> <li>▪ If closing costs are not documented or clearly verifiable at the time of closing, then up to 2% of the purchase price may be added to the purchase price for the assessment of Cost Basis.</li> </ul> </li> <li>◦ Liens paid by the borrower/guarantor or its affiliates in connection with and at the time of the acquisition</li> </ul> </li> </ul> <p>Mortgage broker fees, origination fees, points, etc. cannot be included in the Cost Basis</p>

te/Term Refinance Transactions

**General Requirements**

- New loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months
- If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC
  - A seasoned HELOC is defined as a HELOC that has been in place for at least twelve months and not having draws totaling over \$2000 in the most recent twelve months. Withdrawal activity must be documented with a transaction history
- Max cash back at closing is limited to 2% of the new loan amount

**LTV Restrictions**

• **Standard loans:**

- If owned ≤ 6 months:
  - Use lower of Cost Basis (defined herein) or appraised value to calculate LTV, or
  - If Cost Basis exceeds the purchase price by ≥ 120% then the appraised value can be used to calculate the LTV but the total loan amount will be limited to no more than the Cost Basis
- If owned > 6 months: Use appraised value

Example:

For illustrative purposes, the below assumptions will be made

- Purchase Price: \$200,000
- As Is Appraised Value: \$500,000
- Closing Costs: \$4000
- Paid and Documented Renovations: \$102,000

Cost Basis Determination (inclusive of closing costs and paid/documentated renovations)

- \$200,000 (purchase price) + \$4000 (closing costs) + \$102,000 (documented renovations) = \$306,000

Current as is appraised value of \$500,000 (assuming a maximum allowable LTV of 80%) would yield a maximum loan amount of \$400,000

In the above example, because the Cost Basis exceeds the purchase price by ≥ 120%, ( $\$306,000/\$200,000 = 153\%$ ), the current appraised value can be used to calculate maximum LTV ( $80\% \times \$500,000 = \$400,000$ ), however, the maximum loan amount is limited to the Cost Basis (Cost Basis as calculated above = \$306,000)

<p><b>Cash-Out Transactions</b></p>	<ul style="list-style-type: none"> <li>• A cash-out transactions is one that refinances existing debt on a property and in which the borrower/guarantor receives net proceeds (excluding third-party expenses reflected on the HUD or similar document) from the refinancing that exceed 2% of the loan amount. Financing of properties owned free and clear and acquired more than six months prior to the new loan disbursement date is also considered a Cash Out Refinance</li> <li>• Cash-out loan proceeds may be used for business purposes only</li> <li>• Signed explanation of cash out required if Business Purpose Affidavit does not address use of proceeds (required for natural borrowers only). <b>All documentation in file must support and not conflict with the Business Purpose Affidavit.</b></li> <li>• Cash-out may be used for reserves if FICO &gt; 700</li> <li>• Cash-out proceeds cannot exceed \$500,000 for standard loan transactions</li> </ul> <p><b><u>LTV Restrictions</u></b></p> <ul style="list-style-type: none"> <li>• <b><u>Standard loans:</u></b> <ul style="list-style-type: none"> <li>• If owned ≤ 12 months:           <ul style="list-style-type: none"> <li>▪ Use lower of Cost Basis (defined herein) or appraised value to calculate LTV, or</li> <li>▪ If Cost Basis exceeds the purchase price by ≥ 120% then the appraised value can be used to calculate the LTV but the total loan amount will be limited to no more than the Cost Basis</li> </ul> </li> <li>• If owned &gt; 12 months: Use appraised value</li> </ul> </li> </ul> <p>* See above example in the Rate/Term Refinance Transactions Section for calculation of maximum LTV and loan amount</p>
<p><b>Delayed Financing</b></p>	<ul style="list-style-type: none"> <li>• Property was purchased within six (6) months of the loan application</li> <li>• HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property</li> <li>• Preliminary title reflects the borrower/guarantor as the owner and no liens</li> <li>• Prior transaction must have been arm's length</li> <li>• Will be treated as a rate and term refinance</li> </ul>
<p><b>Age of Documents</b></p>	<p>All credit documents, including title commitment must be no older than ninety (90) days from the Note date with the exception of the credit and appraisal report(s) which must be no older than 120 days from the Note date</p>

Eligibility

Eligibility

- First-time homebuyers are not eligible. A first-time homebuyer is defined as a borrower who has not owned a residential property at any time during the prior three years
  - Both experienced investors and inexperienced investors are permitted
  - Experienced investors are defined as:
    - Borrower/primary guarantor must have a history of owning and managing commercial or non-owner occupied residential real estate for at least 12 consecutive months in the most recent 3 years, or
    - Borrower/primary guarantor must have had ownership in three or more properties over the past 24 months
  - Inexperienced investors are defined as:
    - Borrowers not meeting the definition of an experienced investor are considered to be inexperienced investors. These loans must meet the additional criteria:
      - Minimum DSCR of 1.0
      - Maximum LTV 75%
      - Maximum loan of \$1,000,000

Borrower/Guarantor(s) must be US Citizens or Non-US Citizen(s) who are lawfully present in the United States. This includes both Permanent Qualified Resident Aliens and Non-Permanent Qualified Aliens as defined in the Borrower/guarantor Residency and Eligibility Guide
  - All borrower/guarantor(s) must have a valid Social Security Number
- All business entities must:
- Be a legal entity domiciled in the United States, including LLCs, LPs, partnerships, and corporations
  - Business entity loans must have at least one full recourse warm body, personal guaranty
    - Any owner of 25% or more of the borrowing entity must be a personal guarantor
    - At least 51% of the ownership of the underlying entity must be personal guarantor(s)
    - The majority owner of the underlying entity (if no owner represents 25% or more) must be a personal guarantor
    - Any managing member or controlling holder who is not a borrower must be a Personal Guarantor
      - A controlling holder is any individual or entity that has the ability to direct the activity of the borrowing entity or has the ability to act on behalf of the company (i.e., borrow money, dissolve the entity, remove members, etc.) without unanimous or majority consent of the members
    - All members of an entity will be deemed as managing members absent documentation to the contrary
    - An application, credit report and background check is required on all personal guarantors
    - Personal guarantors are not required to sign the loan closing documents (Note, Mortgage etc.) except to the extent that they are signing on behalf of the entity to encumber indebtedness. If a borrower signs the loan closing documents (Note, Mortgage etc.) as an individual natural person (not on behalf of the entity) then a separate personal guarantee is not required
  - No Correspondent Seller shall suggest or encourage the formation of an Entity for the purpose of obtaining a mortgage loan

<p><b>Eligibility (continued)</b></p>	<ul style="list-style-type: none"> <li>• Titles currently vested in individual name(s) or in the name of an existing legal entity, but which will be closing in a newly formed entity must meet the following requirements:             <ul style="list-style-type: none"> <li>◦ All members listed on title must apply for the loan; and</li> <li>◦ All individuals listed on title must be listed on the newly formed entity as members; and</li> <li>◦ All members must guarantee the loan based on the interest of the current vesting. For example, if the property is currently vesting in husband and wife as joint tenants, both must guarantee the loan regardless of the membership interest detailed in the newly formed entity</li> </ul> </li> <li>• Be an entity with natural person members</li> <li>• Be a U.S. based entity in good standing</li> </ul> <p><u>Business Entity Documentation Requirements:</u></p> <ul style="list-style-type: none"> <li>• Certificate of formation, filed articles of incorporation, including any and all amendments, if applicable, and a current listing of all ownership interests             <ul style="list-style-type: none"> <li>◦ The Operating Agreement for the LLC must be provided in order to confirm acceptability of the LLC, including but not limited to granting authority to the signor to encumber indebtedness on behalf of the entity</li> </ul> </li> <li>• Lender to provide a clear OFAC check for all individuals with 25% or more ownership of the entity (ownership must be confirmed by a current listing of ownership interests)</li> <li>• Current Certificate of Good Standing dated within 12 months prior to note date</li> <li>• Lender certifies that the legal entity structure, ownership percentage and managing members at the time of closing are consistent with the documentation provided in loan file presented for purchase</li> </ul>
<p><b>Ineligible Borrower/guarantors</b></p>	<ul style="list-style-type: none"> <li>• Life Estates</li> <li>• Trusts</li> <li>• Guardianships</li> <li>• Community Land Trusts</li> <li>• Land Trusts,</li> <li>• Borrower/guarantors/business entities with <b>any</b> ownership in a business that is Federally illegal, regardless if the income is not being considered for qualifying</li> <li>• Foreign Nationals defined as a citizen of another country that does not fall into one of the categories or meet the requirements</li> <li>• 501(c)(3) organizations</li> <li>• Trusts or LLCs whose members include other LLCs, corporations, partnerships, or trusts.</li> <li>• Trusts or LLCs where a Power of Attorney is used.</li> <li>• Borrower/guarantor(s) with Diplomatic Immunity status</li> </ul>
<p><b>Non-Arm's Length</b></p>	<p>A non-arm's length transaction exists whenever there is a personal or business relationship with any party to the transaction which may include the seller, builder, real estate agent, appraiser, lender, title company or other interested party.</p> <p>The following non-arm's length transactions are eligible:</p> <ul style="list-style-type: none"> <li>• Family sales or transfers</li> <li>• Assignment of contracts</li> <li>• Property seller acting as their own real estate agent</li> <li>• Relative of the property seller acting as the seller's real estate agent</li> <li>• Borrower/guarantor acting as their own real estate agent</li> <li>• Relative of the borrower/guarantor acting as the borrower/guarantor's real estate agent</li> <li>• Borrower/guarantor purchasing from their landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower/guarantor and landlord)</li> </ul>

Credit	
<b>Underwriting</b>	<ul style="list-style-type: none"> <li>• Manual underwrite is required</li> <li>• In some cases, single loan variances to program eligibility may be acceptable when strong compensating factors exist to offset the risk. Single loan variance must be granted by the purchaser</li> <li>• Simultaneous Submissions do not need to be underwritten simultaneously</li> </ul>
<b>Credit Requirements</b>	<ul style="list-style-type: none"> <li>• Tri-merged credit reports are required on all borrower/guarantor(s) dated within 120 days of loan origination               <ul style="list-style-type: none"> <li>◦ The representative score for each borrower/guarantor is:                   <ul style="list-style-type: none"> <li>▪ The middle score when three scores are obtained, or</li> <li>▪ The lower score when two scores are obtained</li> <li>▪ If only one score is obtained, the borrower/guarantor is ineligible</li> </ul> </li> </ul> </li> <li>• The representative score for the loan is the lowest representative score of the borrower(s) or guarantor(s), as applicable</li> <li>• Minimum 2 trade lines are acceptable if the borrower/guarantor has a satisfactory mortgage rating for at least 12 months (opened or closed) within the last 24 months and 1 additional open trade line</li> <li>• Each borrower/guarantor must meet the minimum trade line requirements</li> <li>• Authorized user accounts are not allowed as an acceptable trade line</li> <li>• Non-traditional credit is not allowed as an acceptable trade line</li> <li>• Credit reports with bureaus identified as “frozen” are required to be unfrozen and a current credit report with all bureaus unfrozen is required</li> </ul>



<p><b>Fraud Report / Background Check</b></p>	<ul style="list-style-type: none"> <li>• In addition to compliance the OFAC and Exclusionary list policy as set forth in the Special Products Seller Guide, Section B707, all loans must include a third-party background check/fraud detection report for all borrowers/guarantor(s). Report findings must cover standard areas of quality control and be dated within 90 days of loan origination. Lenders must also verify that all parties are not citizens of or reside in a country identified by Financial Action Task Force (FATF) as being a high-risk jurisdiction or a jurisdiction with strategic deficiencies</li> <li>• All “high-level” and/or “red flag” alerts on the report must be addressed. A copy of the findings report from the vendor must be provided in the loan file with all “high-level” alerts, or “red flags” addressed and/or cleared by the seller (lender). If the seller cannot electronically access the fraud report to clear alerts within the fraud provider’s system, an Underwriter’s Certification from the seller is acceptable. The Certification must address each individual high alert/red flag and explain what actions were taken to satisfy the issues. It must be signed and dated by a member of the seller’s underwriting staff or operations management personnel. Additional documentation may be requested to address high fraud risk</li> <li>• If the borrower/guarantor is party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower/guarantor’s ability to repay, assets or collateral</li> <li>• If background check is not available, the seller must provide evidence of an unsuccessful return</li> <li>• Fraud checks must also include occupancy status to assist in the validation and endorsement of the Business Purpose &amp; Occupancy Affidavit</li> <li>• Background search may be from one of the suggested vendors below or another comparable industry recognized fraud and data vendor. A combination of vendor reports may be used provided that together they fulfill the background search requirements             <ul style="list-style-type: none"> <li>o Lexis Nexis (i.e, SmartLinx Person Report)</li> <li>o Checkpoint (i.e., Investigative Instant and/or Non-Instant Search)</li> <li>o Pacer (Public Access to Court Electronic Records)</li> <li>o FraudGuard (Standard Fraud &amp; Loan Quality Report with added Lien and Judgement Module)</li> <li>o DataVerify (Standard Fraud &amp; Loan Quality Report with added Lien and Judgement Module)</li> <li>o First American (TPR Vendor Management Suite)</li> </ul> </li> </ul>
<p><b>Housing History</b></p>	<p>Mortgage history requirements:</p> <ul style="list-style-type: none"> <li>• Provide a 12 month mortgage history on the primary residence and the subject property, applicable to all borrower/guarantor/entity(s) on the loan</li> <li>• Maximum 1x30x12 between all disclosed mortgages</li> <li>• The mortgage history may be from the credit report, credit supplement or a third party verification service. If the mortgage holder is a party to the transaction or relative of the borrower/guarantor then cancelled checks or bank statements are required to verify a satisfactory mortgage history</li> <li>• Borrower(s)/guarantor(s) mortgage credit history may not show evidence of a loss mitigation program, repayment plan, loan modification or payment deferral plan and must meet all additional requirements in forbearance section below</li> </ul>

<p><b>Significant Derogatory Credit</b></p>	<ul style="list-style-type: none"> <li>• Bankruptcy, Chapter 7, 11, 13 - three (3) years since discharge / dismissal date</li> <li>• Foreclosure – three (3) years since completion date</li> <li>• Short Sale/Deed-in-Lieu - three (3) years since completion / sale date</li> <li>• Forbearance (refer to section below)</li> <li>• Mortgage accounts that were settled for less, negotiated or short payoffs – three (3) years since settlement date</li> <li>• Loan modification – three (3) years since modification date</li> <li>• Notice of Default – three (3) years,             <ul style="list-style-type: none"> <li>◦ NOD's on short term bridge loans (&lt;2 year term) with hard maturities may be acceptable assuming all deficiencies are cleared and documented. These loans are subject to OGI approval.</li> </ul> </li> <li>• A satisfactory explanation letter from the borrower/guarantor(s) must be provided addressing any of the above derogatory credit events if the event occurred in the last four (4) years</li> <li>• Multiple derogatory credit events require a 7 year seasoning period             <ul style="list-style-type: none"> <li>◦ A mortgage with a Notice of Default filed that is subsequently modified is not considered a multiple event</li> <li>◦ A mortgage with a Notice of Default filed that is subsequently foreclosed upon or sold as a short sale is not considered a multiple event</li> </ul> </li> <li>• Medical collections are allowed to remain outstanding if the balance is less than \$10,000 in aggregate</li> <li>• Tax liens, judgments, charge-offs, and past-due accounts must be satisfied or brought current prior to or at closing</li> <li>• Cash-Out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts</li> <li>• Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full</li> </ul>
<p><b>Forbearance</b></p>	<p>Subject and Non-Subject Properties</p> <ul style="list-style-type: none"> <li>• Any forbearance resulting in a subsequent loan modification/repayment plan is considered a significant derogatory credit event and subject to a 3 year waiting period</li> <li>• Any loan(s) shown to be in <u>active</u> forbearance is considered a significant derogatory credit event and is ineligible</li> <li>• If any loan was subject to a prior forbearance granted between 4/1/20 and 4/1/21, if such forbearance has been exited and all subsequent payments must have been made on time since the exit then such event will not be considered a significant derogatory credit event</li> <li>• Loan file must contain a letter of explanation from the borrower/guarantor detailing the reason for forbearance and that the hardship no longer exists</li> </ul>

**Debt Service Coverage Ratio**

**Debt Service Coverage Ratio (DSCR)**

Debt Service Coverage Ratio (DSCR):

- The DSCR is calculated by taking the gross rents divided by the PITIA of the subject property
  - Interest-only loans may use the ITIA payment for DSCR calculation – see Interest-only section for minimum DSCR requirement and additional details
- Use the real estate taxes listed on the title policy or a current real estate tax bill converted into a monthly payment
- Use the insurance premium that is listed on the approved insurance certificate converted into a monthly payment
- Use the Association fees (if applicable) that is listed as the monthly amount on the appraisal or current homeowner association statement

Gross Rent Requirements (see Short-Term Rentals below, if applicable):

- **Purchase:**
  - Obtain Appraisal Form 1007/1025 and use 100% of the gross market rent in DSCR calculation
  - In cases where the purchase contract clearly states that the existing lease agreement will be assigned to the borrower at closing, then the gross rent used in the DSCR calculation is the lesser of the lease agreement or the market rent (from appraisal form 1007/1025). If the lease agreement is greater than the market rent but is ≤ 10% over the market rent, then the lease amount can be used for qualifying, however the amount used to qualify cannot exceed 10% over the market rent
- **Refinance:**
  - Obtain both a current lease agreement and Appraisal Form 1007/1025. An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires or per local statutes is still current is allowed
  - Gross rent used in the DSCR calculation is the lesser of the lease agreement or the market rent (from appraisal form 1007/1025). If the lease agreement is greater than the market rent but is ≤ 10% over the market rent, then the lease amount can be used for qualifying, however the amount used to qualify cannot exceed 10% over the market rent

Example #1 – Actual Rent is 20% Above Market		Example #2 – Actual Rent is 5% Above Market	
Actual rent per lease agreement	\$1200	Actual rent per lease agreement	\$1050
Market rent per appraisal form 1007/1025	\$1000	Market rent per appraisal form 1007/1025	\$1000
Allowable amount for qualifying	\$1100	Allowable amount for qualifying	\$1050

**DSCR Restrictions**

- DSCR < 1.0 not permitted for:
  - Inexperienced investors
- DSCR < 1.0 requires 6 months reserves
- Short-term rentals require a DSCR ≥ 1.25
- Interest-only: Minimum DSCR is program minimum as determined by individual loan characteristics plus .10
- Minimum DSCR of 1.25 required on loan amounts less than \$150,000

**Short-Term Rentals**

Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g. short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement

- Maximum 60% LTV for all Standard using short-term rental income to qualify
- Minimum DSCR 1.25
- Interest-only permitted
  - DSCR is program minimum as determined by individual loan characteristics plus .10
  - Qualify on ITIA
  - Inexperienced investors not permitted to qualify via short term rental
- All loans must be originated in accordance with federal, state and local regulations and restrictions pertaining to short-term rentals
  - New York City short-term rental qualifying income not permitted
- DSCR Calculation
  - Monthly gross rent (as determined by transaction type – see below) multiplied by 80% (to account for costs associated with operating a short-term rental property) divided by PITIA (or ITIA for IO loans) = DSCR
- Determining Gross Monthly Rental Income – the following methods may be used to determine gross monthly rental income:
  - Purchase
    - 1007 or 1025 Comparable Rent Schedule survey prepared by the appraiser reflecting long-term or short-term market rents; or
    - AIRDNA Rentalizer and Overview reports that meet the following requirements:
      - Rentalizer Report
        - Only allowed for purchase transactions
        - Forecast period must cover 12 months from the note date
        - The occupancy rate must be > 60%
        - Must have at least five (5) comparable properties, all within the same ZIP code, must be similar in size, room count, amenities, availability, and occupancy
      - Overview report
        - Market grade by zip code must be B or better
        - Income calculation is annual revenue / 12 not to exceed 125% of market rent
  - Refinance
    - Most recent 12-month\* rental history statement from a third party rental/management service not to exceed 125% of market rent. The statement must identify the subject property/unit, rents collected for the previous 12-months\*, or
    - Most recent 12-month\* bank statements from the borrower evidencing rental deposits not to exceed 125% of market rent. If no rent received, use zero for that month.
    - Borrower must provide rental records for the subject property to support monthly deposits

\* Properties owned ≥ 6 months but < 12 months may be considered on a single loan variance basis.

<p><b>Lease Requirements</b></p>	<p>Leases must:</p> <ul style="list-style-type: none"> <li>• Be fully executed by both an Eligible Tenant and the borrower/guarantor(s) (as landlord(s)) <ul style="list-style-type: none"> <li>◦ Eligible Tenant: An eligible tenant is any party other than any borrower or guarantor, any affiliate of the borrower/guarantor, any holder of a direct or indirect interest in borrower or such affiliate, any officer, director, executive employee, or manager of the borrowing entity, and any family member (including spouse, siblings, ancestors, and lineal descendants) of any person or entity described in the preceding</li> </ul> </li> <li>• Be in the name of the borrower/guarantor or their verified property manager, as landlord</li> <li>• Have a unit rental rate, and terms consistent with rates and terms prevailing in the local market where the property is located</li> <li>• Be on a form that is customary to the area the property is located in and comply with all applicable legal requirements in all material respects (including all required disclosures)</li> <li>• Cover 100% of the square footage of the applicable residential unit</li> <li>• No borrower/guarantors (or owners of the borrower/guarantor if the borrower/guarantor is an LLC) or their Immediate family members may be a lessee</li> <li>• Lease with purchase option not permitted</li> <li>• <b>Rent to own and/or contract for deeds are ineligible</b></li> <li>• <b>All tenants on leases must be natural persons. Exceptions for other types of entities may be considered on a case by case basis</b></li> </ul>		
<p><b>Assets/Reserves</b></p>			
<p><b>Asset Requirements</b></p>	<ul style="list-style-type: none"> <li>• Beyond the minimum reserve requirements and to fully document the borrower/guarantor's ability to meet their obligations, borrower/guarantors should disclose all liquid assets</li> <li>• Eligible assets must be held in a US account</li> <li>• 2 most recent months account statements from either the borrower/guarantor/primary guarantor or the borrowing entity, as applicable (including inter vivos revocable trust assets), must be provided. The asset verification must provide sixty (60) days of account activity and include all items normally indicated on bank statements</li> <li>• Fannie Mae approved third party suppliers and distributors that generate asset verification reports are permitted for the purpose of verifying assets</li> </ul>		
	<p><b>Asset Type</b></p>	<p><b>% Eligible for Calculation of Funds</b></p>	<p><b>Additional Requirements</b></p>
	<p><b>Checking/Savings/Money Market/CDs</b></p>	<p>100%</p>	<p>Two (2) months most recent statements</p>

<b>Asset Requirements (continued)</b>	<b>Publicly Traded Stocks/Bonds/Mutual Funds</b>	100%	Two (2) months most recent statements. Non-vested stock is ineligible. Margin account and/or pledged asset balances must be deducted
	<b>Retirement Accounts (401(k), IRAs, etc.)</b>	70% of the vested value after the reduction of any outstanding loans	<ul style="list-style-type: none"> <li>• Most recent statement(s) covering a two (2) month period</li> <li>• Evidence of liquidation if using for down payment or closing costs</li> <li>• Evidence of access to funds required for employer- sponsored retirement accounts</li> <li>• Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves</li> </ul>
	<b>Cash Value of Life Insurance/ Annuities</b>	100% of value unless subject to penalties	Most recent statement(s) covering a two (2) month period
	<b>1031 Exchange</b>	Reverse 1031 exchanges not allowed	<ul style="list-style-type: none"> <li>• HUD-1/CD for both properties</li> <li>• Exchange agreement</li> <li>• Sales contract for exchange property</li> <li>• Verification of funds from the Exchange Intermediary</li> </ul>
	<b>Business Funds</b>	Allowed for down payment/closing costs and reserves with additional requirements met	<ul style="list-style-type: none"> <li>• If business account used is not in the same name as the borrowing entity, then the following requirements must be met:                             <ul style="list-style-type: none"> <li>◦ Natural borrower/guarantor(s) must have ownership of 25% or greater of the entity holding the account</li> <li>◦ Borrower/guarantor must also be named on the account or provide proof of access to 100% of the funds from other members</li> </ul> </li> </ul>
	<b>Gift Funds</b>	Permitted after borrower/guarantor minimum 10% contribution. Gifts that must be repaid are not eligible	<ul style="list-style-type: none"> <li>• Donor must be a family member, future spouse or domestic partner</li> <li>• Executed gift letter with gift amount and source, donor's name, address, phone number and relationship</li> </ul> <p>Seller must verify sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account</p> <ul style="list-style-type: none"> <li>• Acceptable documentation</li> </ul>

<b>Asset Requirements (continued)</b>	<b>Gift Funds (continued)</b>	Permitted after borrower/guarantor minimum 10% contribution	includes the following: <ul style="list-style-type: none"> <li>o Copy of donor's check and borrower's deposit slip</li> <li>o Copy of donor's withdrawal slip and borrower's deposit slip</li> <li>o Copy of donor's check to the closing agent</li> </ul> <ul style="list-style-type: none"> <li>• A settlement statement/CD showing receipt of the donor's gift check</li> <li>• Gift funds are not permitted to meet reserve requirements</li> </ul>
	<b>Gift of Equity</b>	Not Permitted	N/A
	<b>Virtual Currency</b>	Not Permitted	N/A
	<b>Non-vested or restricted stock accounts</b>	Not Permitted	N/A
	<b>Cash-on-hand</b>	Not Permitted	N/A
	<b>Down payment assistance programs</b>	Not Permitted	N/A
	<b>Unsecured loans or cash advances</b>	Not Permitted	N/A
<b>Reserves</b>	<ul style="list-style-type: none"> <li>• DSCR <math>\geq</math> 1.0: 3 months PITIA for subject property</li> <li>• DSCR <math>&lt;</math> 1.0: 6 months PITIA for subject property</li> <li>• Cash out may be utilized for reserves if FICO <math>&gt;</math> 700</li> <li>• Gift funds are not permitted to meet reserve requirements</li> <li>• Funds utilized for down payment and closing costs cannot be included in reserve funds</li> <li>• Interest Only: Reserves should be based on the ITIA payment</li> </ul>		
<b>Interested Party Contributions</b>	<ul style="list-style-type: none"> <li>• Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender or their affiliates and/or any other party with an interest in the real estate transaction</li> <li>• The following restrictions for interested party contributions apply: <ul style="list-style-type: none"> <li>o May only be used for closing costs and prepaid expenses and may not be used for down payment or reserves</li> <li>o Maximum interested party contribution is limited to 3% of the purchase price</li> </ul> </li> </ul>		
<b>Seller Concessions</b>	<ul style="list-style-type: none"> <li>• All seller concessions must be addressed in the sales contract, appraisal and HUD-1/CD. A seller concession is defined as any interested party contribution beyond the stated limits (as shown in the prior section, Interested Party Contributions) or any amounts not being used for closing costs or prepaid expenses</li> <li>• If a seller concession is present, both the appraised value and the sales price must be reduced by the concession amount for the purposes of calculating the LTV/CLTV/HCLTV</li> </ul>		
<b>Personal Property</b>	<ul style="list-style-type: none"> <li>• Any personal property transferred with a property sale must be deemed to have zero transfer value as indicated by the sales contract and appraisal</li> <li>• If any value is associated with the personal property, the sales price and the appraised value must be reduced by the personal property value for purposes of calculating the LTV/LTC</li> </ul>		

Subordinate Financing	
<b>Subordinate Financing</b>	Not permitted
<b>Down Payment/Closing Cost Assistance</b>	Down payment and closing cost assistance subordinate financing is not permitted
Property/Appraisal	
<b>Eligible Property Types</b>	<ul style="list-style-type: none"> <li>1-4 Unit residential investment properties</li> <li>Attached and detached</li> <li>Planned Unit Developments (PUDs)</li> <li>Condominiums – warrantable and non-warrantable (refer to Condo Project Requirements below)</li> <li>Properties that are legal or legal-non-conforming use</li> </ul> <p><b>Miscellaneous:</b></p> <ul style="list-style-type: none"> <li>Leasehold must meet Fannie Mae requirements</li> <li>Properties with leased solar panels must meet Fannie Mae requirements</li> <li>All units/properties must have a functioning kitchen and bathroom</li> <li>Properties must meet the following minimum square footage:                             <ul style="list-style-type: none"> <li>1 unit: 700 square feet</li> <li>Condominium: 500 square feet</li> <li>2-4 unit: 400 square feet per unit</li> </ul> </li> </ul>
<b>Acceptable Forms of Ownership:</b>	<ul style="list-style-type: none"> <li>Fee Simple</li> <li>Leaseholds</li> <li>Deed/Resale Restrictions must meet Fannie Mae requirements</li> </ul>
<b>Ineligible Property Types</b>	<ul style="list-style-type: none"> <li>Assisted living facilities, nursing homes or any arrangement where the unit owner or tenant contracts for a commitment for resident or tenant care</li> <li>Community Land Trusts</li> <li>Property value &lt;\$100,000</li> <li>Cooperatives</li> <li>Condotels or time-shares</li> <li>Lease with purchase option properties</li> <li>Manufactured/Modular/Mobile Homes</li> <li>Mixed-Use Properties</li> <li>Model Home Leasebacks</li> <li>Multifamily (5+ units)</li> <li>Rural Properties defined as properties classified as rural by the appraisal or with two of three comparable properties more than 5-miles from the subject property</li> <li>Properties with atypical physical features for the neighborhood</li> <li>Properties in areas where more than 10% of other properties within a 2-block radius are either clearly vacant, abandoned and/or boarded-up</li> <li>Properties located in Hawaii in lava zones 1 &amp; 2</li> <li>Properties located in areas where a valid security interest in the property cannot be obtained</li> <li>Properties not configured or used for residential purpose</li> <li>Properties on Native American reservations or properties not easily accessible by roads that meet local standards</li> </ul>



<p><b>Ineligible Property Types (continued)</b></p>	<ul style="list-style-type: none"> <li>• Properties with known adverse environmental conditions (other than lead paint, radon or asbestos in each case which do not present a health hazard, do not require remediation and have been contained per EPA guidelines)</li> <li>• Properties subject to ground lease</li> <li>• Properties which are not in compliance with local zoning regulations</li> <li>• Properties where the appraisal indicates any environmental concerns</li> <li>• Properties with condition rating of C5/C6 or not lease ready</li> <li>• Properties with construction rating of Q6</li> <li>• Properties with revolving credit facilities which permit the addition of additional collateral</li> <li>• Properties &gt;2 acres</li> <li>• Properties with a private transfer fee covenant unless the covenant is excluded under 12CFR 1228 as an excepted transfer fee covenant</li> <li>• Single Room Occupancy (SROs) or former healthcare facilities</li> <li>• Tenants-in-Common projects (TICs)</li> <li>• Unique properties</li> <li>• Working farms, ranches or orchards</li> </ul>
<p><b>Accessory Dwelling Unit (ADU) Requirements</b></p>	<p>An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling.</p> <ul style="list-style-type: none"> <li>• Rental income from the ADU is not permitted</li> <li>• Only one ADU is permitted on the parcel of the primary one-unit dwelling and it must:             <ul style="list-style-type: none"> <li>◦ Be subordinate in size to the primary dwelling</li> <li>◦ Have the following separate features from the primary dwelling:                 <ul style="list-style-type: none"> <li>• Means of ingress/egress,</li> <li>• Kitchen with cabinets, a countertop, a sink with running water and a stove,</li> <li>• Sleeping area,</li> <li>• Bathing area, and</li> <li>• Bathroom facilities</li> </ul> </li> </ul> </li> </ul> <p>Additionally, the appraiser must confirm that subject property is a one-unit property with an ADU and the appraisal must contain comparable sales with ADUs in the subject property's market area. 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.</p>
<p><b>Geographic Area</b></p>	<p>Properties located outside of the United States or in a Territory, Province or Commonwealth; including, but not limited to properties in Guam, Puerto Rico, the Virgin Islands, the Commonwealth of the Northern Mariana Islands or American Samoa are not permitted</p>

**Condo Project Requirements**

If the property is part of a condominium association, the originator must obtain a condominium questionnaire and insurance certificate from the condominium association to ensure that it meets the eligibility criteria below. Condominiums must either meet FNMA requirements (inclusive of limited reviews) or the following warrantable guidelines as applicable. If neither set of guidelines is met, refer to the non-warrantable guideline requirements below.

Warrantable Condominiums	
Criteria	Requirement
HOA Delinquency	No more than 15% of tenants within an HOA may be delinquent more than 30 days
Capital Reserves/ Special Assessments	At least two years of planned capital reserves and any special assessments available for immediate use
Conveyance	At least 90% of units have been sold to owners
Renter Concentration	No more than 50% of total units may be renter occupied unless borrower/guarantor owns 50% or more of total units or controls the association
Ownership Concentration	Projects with units owned by a single entity (individual, investor group, partnership or corporation) are ineligible when a single entity owns more than the following total number of units in the project: <ul style="list-style-type: none"> <li>• Projects with 5-20 units: 2 units</li> <li>• Projects with ≥ 21 units: 20%</li> </ul>
Project Status	Project is 100% complete and not subject to additional phasing
Insurance	The Condominium Association maintains a master insurance policy per FNMA guidelines
Litigation	Association is not named as party to any material litigation, defined as litigation that would not be covered under current insurance policy or any reputational litigation as determined by OGI
Conveyance	Control of HOA has been turned over to unit owners
Commercial Component	No more than 35% of total square footage may be used for commercial purposes
Ownership Interests	Units in the project must be held fee simple
Use Restrictions	The project must not restrict owner occupancy or the ability of new owners to rent units entirely.
Significant Deferred Maintenance	Loans secured by units in condo and co-op projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.
Special Assessments	Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability. The lender must document the loan file with the following: <ul style="list-style-type: none"> <li>• the reason for the special assessment;</li> <li>• the total amount assessed and repayment terms;</li> <li>• documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and</li> <li>• borrower qualification with any outstanding special assessment payment.</li> </ul> The lender is expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, If the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

**Condo Project Requirements (continued)**

Non-Warrantable Condominiums	
Criteria	Requirement
LTV/LTC	Must reduce LTV from eligibility table by 10%
HOA Delinquency	No more than 15% of tenants within an HOA may be delinquent more than 30 days
Capital Reserves/ Special Assessments*	At least one year of planned capital reserves and any special assessments available for immediate use
Conveyance*	At least 30% of units have been sold to owners or under contract
Renter Concentration*	No more than 55% of total units may be renter occupied
Ownership Concentration*	Units owned by a single entity (individual, investor group, partnership or corporation) represent no more than 30% of total units, or in projects with only 5 to 20 units – 2 units, other than the borrower/guarantor unless the borrower/guarantor is the largest single owner in the project
Project Status	Project is 100% complete and not subject to additional phasing
Significant Deferred Maintenance	Loans secured by units in condo and co-op projects with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible for purchase. These projects will remain ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.
Special Assessments	<p>Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.</p> <p>The lender must document the loan file with the following:</p> <ul style="list-style-type: none"> <li>• the reason for the special assessment;</li> <li>• the total amount assessed and repayment terms;</li> <li>• documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and</li> <li>• Borrower qualification with any outstanding special assessment payment</li> </ul> <p>The lender is expected to obtain the financial documents necessary to confirm the association has the ability to fund any repairs. If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed or the project is not eligible. Additionally, If the lender or appraiser is unable to determine that there is no adverse impact, the project is ineligible.</p>
Litigation	<p>Association is not named as party to any material litigation, defined as: Structural/Functional litigation against developer</p> <p>Non-material litigation (i.e., non-monetary neighbor disputes, localized single unit damage not impacting overall safety, structural soundness, habitability or functional use of the project, reasonably anticipated or known damages/legal expenses not expected to exceed 10% of project reserves) is permitted with adequate reserves</p> <p>Lender must provide verification of lawsuit amount and proof of sufficient insurance coverage.</p>
Conveyance	Control of HOA has been turned over to unit owners
Commercial Component	No more than 35% of total square footage may be used for commercial purposes
Miscellaneous	Newly converted Non-full gut rehab are ineligible. All units/properties must have a functioning kitchen

**Appraisal Requirements**

- At minimum, a USPAP and FIRREA compliant interior appraisal from a state licensed appraiser who is independent of the originator and borrower/guarantor must be completed for the subject transaction. This appraisal must contain a customary independence certification by the appraiser. See below table for appraisal requirements based on loan amount.
- Restricted appraisals are not permitted
- Re-use of a prior appraisal is permitted only for a subsequent rate/term transaction. The borrower and lender must be the same
- The subject property must be appraised within 90 days prior to the Note date
- Appraisal must ensure that any and all additions or conversions have been completed according to code or lender must provide a recent certificate of occupancy validating code requirements have been met
- Appraisal assignments must be obtained in a manner that maintains appraiser independence and does not unduly influence the appraiser to meet a predetermined value
  - In no event, are appraisals ordered or selected by borrower/guarantors, or other lenders acceptable
  - Sellers are responsible for reviewing the appraisal report for accuracy, completeness, and its assessment of the marketability of the subject property. The Seller needs to determine that the subject property provides acceptable collateral for the loan

Standard DSCR Appraisal Requirements Based on Loan Amount	
Loan Amount	Appraisal Requirements
≤ \$2,000,000	1 Full Appraisal
> \$2,000,000	2 Full Appraisals

Valuation Criteria:

- The interior appraisals must be on the applicable form required by the Fannie Mae Guidelines for 1-4 family properties. Currently those forms are FNMA 1004/FH 70 (1 Family), FNMA 1073/FH 465 (Individual Condo), or FNMA 1025/FH 72 (2-4 Family)
- Appraisal market rent estimates must be based on an annual lease for residential purposes and must be on the applicable form required by the Fannie Mae Guidelines. Currently those forms are FNMA 1007 (1 Family) or FNMA 1025 (2-4 Family). Short term or specialized use rental rates are not acceptable for use as market rent
- There must be at least 3 comparables in the same zip code or within 1 mile of the subject property. One comparable must be within 1 mile of the subject property with limited net adjustments
- The originator must review the valuation to ensure that the value is well supported by the evidence in the appraisal or residential evaluation and by the comparable transactions. The appraiser must inspect the exterior of the property and provide a photo.
  - Appraiser must review current market data to determine whether the property has declined in value since the date of the original appraisal. If the value has declined since the original appraisal, a new full appraisal is required
- A market rent comparable schedule (FNMA 1007 or 1025) must be provided.
- Appraisal Update (Form 1004D) is not permitted for appraisals that are over 90 days aged from Note date. A new full appraisal is required for loans where the appraisal effective date is greater than 90 days from the Note date
- When two (2) appraisals are required, the following applies:
  - Appraisals must be completed by two (2) independent companies
  - The LTV will be determined by the lower of the two (2) appraised values if the lower appraisal supports the value conclusion
  - Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled

<p><b>Appraisal Requirements (continued)</b></p>	<ul style="list-style-type: none"> <li>o If the two (2) appraisals are done “subject to” and 1004Ds are required, it is allowable to provide one (1) 1004D. If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon</li> </ul> <p><u>Third-Party Review</u></p> <ul style="list-style-type: none"> <li>• Collateral Desktop Analysis (CDA) ordered from Clear Capital, a Consolidated Collateral</li> <li>• Analysis (CCA XP) ordered from Consolidated Analytics or a Collateral Underwriter (CU) score of 2.5 or less is required to support the value of the appraisal. The Seller is responsible for ordering the CDA or CCA XP if needed.             <ul style="list-style-type: none"> <li>o If the CDA/CCA XP returns a value that is “Indeterminate” then one (1) of the following requirements must be met:                 <ul style="list-style-type: none"> <li>• A Clear Capital or Consolidated Analytics BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation of the three Reports is required. The Value Reconciliation will be used for the appraised value of the property.</li> <li>• A field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property.</li> </ul> </li> <li>o If the CDA/CCA XP indicates a lower value than the appraised value that exceeds a 10% tolerance, the lower value of the two must be used.</li> </ul> </li> <li>• If two (2) full appraisals are provided on a standard DSCR loan, a CDA/CCA XP is not required</li> </ul> <p><u>Appraisal Transfers</u></p> <ul style="list-style-type: none"> <li>• Appraisal transfers are permitted. All appraisal transfers must meet the following requirements:             <ul style="list-style-type: none"> <li>o Appraisal must be in the name of the transferring lender</li> <li>o Transfer letter from transferring lender</li> <li>• Must be on company letterhead</li> <li>• Borrower name and address must be included</li> <li>• Must be executed by an authorized member of the company. The printed name and signature of seller’s representative, title and date is required. Appraisal transfer letters signed by loan officers or loan processors will not be acceptable</li> <li>o Statement from the transferring lender that the appraisal was prepared in compliance with Appraisal Independence Requirements</li> <li>o Paid invoice</li> <li>o Proof that original appraisal report was provided to the borrower</li> </ul> </li> <li>• CDA is required. A CU score is not permitted to be used to meet appraisal review requirements</li> </ul>
<p><b>Rent Loss Insurance</b></p>	<ul style="list-style-type: none"> <li>• Proof of Rent loss Insurance is required. This is in addition to all other insurance requirements</li> </ul>
<p><b>Disaster Area Requirements</b></p>	<ul style="list-style-type: none"> <li>• Refer to the Disaster Guidelines for requirements pertaining to properties impacted by a disaster in:             <ul style="list-style-type: none"> <li>o FEMA Major Disaster Declarations with designated counties eligible for <b>individual assistance (IA)</b>;</li> <li>o Areas where FEMA has not made a disaster declaration, but Community Loan Servicing or an Investor (Fannie Mae, Freddie Mac, FHA, USDA or the Veterans Administration) has determined that there may be an increased risk of loss due to a disaster;</li> <li>o Areas where there is no reason to believe that a property might have been damaged in a disaster</li> </ul> </li> <li>• View <u>FEMA Website</u> including the FEMA Declarations Summary on an ongoing basis to ensure that the property is not located in an area impacted by a disaster.</li> </ul>

<p><b>Escrows</b></p>	<ul style="list-style-type: none"> <li>• Escrow accounts are required for initial and monthly escrow for annual taxes, hazard insurance, flood insurance (if applicable), and HO-6 insurance coverage (if applicable), unless otherwise specified by applicable state law or an escrow waiver has been elected (See Escrow Waiver section). One twelfth (1/12) of the annual premiums are to be paid with the principal and interest payments</li> </ul>
<p><b>Escrow Holdbacks</b></p>	<p>Not allowed unless the holdback has been disbursed and a certification of completion has been issued prior to purchase</p>
<p><b>Escrow Waivers</b></p>	<ul style="list-style-type: none"> <li>• Escrow waivers are permitted and must meet the below criteria:             <ul style="list-style-type: none"> <li>◦ Minimum 720 FICO</li> <li>◦ Minimum 12 month of reserves (based on PITIA or ITIA, as applicable)</li> <li>◦ Pricing adjustment will be applied</li> <li>◦ Present taxes and insurance payments must be current</li> <li>◦ Flood insurance not eligible for escrow waiver</li> </ul> </li> </ul>
<p><b>Assumability</b></p>	<p>Loans are not assumable</p>
<p><b>Property Flips</b></p>	<p>A property is considered a “flip” if either of the following are true:</p> <ul style="list-style-type: none"> <li>• The price in the borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the borrower’s purchase agreement</li> <li>• The price in the borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the borrower’s purchase agreement</li> </ul> <p>If the property is a “flip” as defined above, the following additional requirements apply:</p> <ul style="list-style-type: none"> <li>• A second appraisal must be obtained and a copy of the second appraisal must be provided to the borrower</li> <li>• The second appraisal must be dated prior to the loan consummation/note date.</li> <li>• The property Seller on the purchase contract must be the owner of record.</li> <li>• Increases in value should be documented with commentary from the appraiser and recent comparable sales</li> <li>• Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) must be provided, if applicable</li> <li>• There can be no pattern of previous flipping as evidenced by multiple transfers in the last 12 months</li> <li>• Non-Arm’s Length transactions are not permitted. Lender is responsible for reviewing chain of title. Particular due diligence should be exercised in cases of entity to entity transfers to ensure no red flags are present</li> <li>• The property must have been marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing. The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed-in-lieu</li> </ul>

- Prepayment penalties are not allowed in New Mexico nor Alaska for any reason.
- Prepayment penalties may be assessed as noted below for loans that prepay between the loan origination date and year five (5) in all states except: MI, MN, MS, NC, NJ, OH, PA, RI, TX and VA which must follow all state specific requirements as noted in Appendix.
- When closing a loan with a pre-payment penalty, if the Note states that there is no PPP and does not contain language that references a separate PPP Rider/Addendum then the PPP Rider/Addendum must explicitly state that it supersedes or modifies the Note

**Pre-Payment Penalties**

Prepayment Penalty by Year							
	Year 0-1	Year 1-2	Year 2-3	Year 3-4	Year 4-5	Year 5-6	Year 6-7
7-year option(s)	5.00%	5.00%	4.00%	4.00%	3.00%	2.00%	1.00%
5-year option(s)	5.00%	5.00%	5.00%	5.00%	5.00%	0.00%	0.00%
	5.00%	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%
4-year option(s)	5.00%	5.00%	5.00%	5.00%	0.00%	0.00%	0.00%
	4.00%	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%
3-year option(s)	5.00%	5.00%	5.00%	0.00%	0.00%	0.00%	0.00%
	3.00%	2.00%	1.00%	0.00%	0.00%	0.00%	0.00%
	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%
	6 month's interest if pay down > 20%	6 month's interest if pay down > 20%	6 month's interest if pay down > 20%	0.00%	0.00%	0.00%	0.00%
2-year option (s)	5.00%	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%
1-year option(s)	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
No Prepay Penalty	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

\*\*\* 7 year PPP options are not available in the following states: LA, MI, MN, MS, MO, OH (for 1-2 units), and RI \*\*\*

Special Restrictions	
<b>Maximum Financed Exposure</b>	Borrower/guarantor(s)/entities are limited to a maximum \$6,250,000 in aggregate for Series B loans
<b>Properties Listed for Sale</b>	<ul style="list-style-type: none"> <li>• Properties currently listed for sale (at the time of application) are not eligible for refinance transactions.               <ul style="list-style-type: none"> <li>◦ If a property is discovered to be for sale prior to purchase, the loan will be deemed ineligible for purchase</li> </ul> </li> <li>• Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met:               <ul style="list-style-type: none"> <li>◦ Documentation provided to show cancellation of listing</li> <li>◦ The value will be based on the lesser of the lowest list price or appraised value</li> <li>◦ Must include a minimum pre-payment penalty of two or more years (if a pre-payment penalty is not permitted due to state statues, transaction would be ineligible until greater than six months since the cancellation of the listing)</li> </ul> </li> </ul>
Additional Requirements	
<b>Interest Rate Restrictions</b>	Interest rates must comply with all state usury law requirements.



Appendix A

State Specific Pre-payment Penalty Requirements

State	PPP Permitted	Requirement
Alaska	No	No prepayment penalty shall be permitted
Louisiana	Yes, with conditions	A mortgage lender may contract for and receive a prepayment penalty in an amount not to exceed: (a) Five percent of the unpaid principal balance if the loan is prepaid in full during the first year of its term. (b) Four percent of the unpaid principal balance if the loan is prepaid in full during the second year of its term. (c) Three percent of the unpaid principal balance if the loan is prepaid in full during the third year of its term. (d) Two percent of the unpaid principal balance if the loan is prepaid in full during the fourth year of its term. (e) One percent of the unpaid principal balance if the loan is prepaid in full during the fifth year of its term.
Michigan	Yes, with conditions	Max 3YR at max 1% for SFR
Minnesota	No	No prepayment penalty shall be permitted
Mississippi	Yes, with conditions	(i) Five percent (5%) of the unpaid principal balance if prepaid during the first year; (ii) Four percent (4%) of the unpaid principal balance if prepaid during the second year; (iii) Three percent (3%) of the unpaid principal balance if prepaid during the third year; (iv) Two percent (2%) of the unpaid principal balance if prepaid during the fourth year; (v) One percent (1%) of the unpaid principal balance if prepaid during the fifth year; and (vi) No penalty if prepaid more than five (5) years from date of the note creating the debt.
New Jersey	Yes, with conditions	Permitted for <b>business entity borrowers only</b> . Pre-payment penalties cannot be charged to natural person borrowers.
New Mexico	No	No prepayment penalty shall be permitted
North Carolina	Yes, with conditions	Prepayment penalty may be charged only on loans greater than \$150,000
Ohio	Yes, with conditions	1-2 unit: maximum 1% within 5 years of execution date of the mortgage only if loan amount >=\$107,633; No prepayment penalty permitted if loan amount < \$107,633 3-4 unit : prepayment penalty permitted without restriction
Pennsylvania	Yes, with conditions	1-2 unit: only if loan balance > <b>\$312,159</b> No prepayment penalty permitted if balance <= <b>\$312,159</b> 3-4 unit: prepayment penalty allowed without restriction
Rhode Island	Yes, with conditions	Prepayment penalty max 2% of balance
Texas	Yes, with conditions	Property cannot be owner-occupied
Virginia	Yes, with conditions	Max 1% if balance < \$75k